

ENVIRONMENTAL POLICY DIALOGUE: LESSONS LEARNED

By
The EPIQ Technical Advisory Group

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¹ This report is the first in a series on Environmental Policy and Institutional Strengthening Lessons Learned. It should be considered a living document and will be revised and updated periodically.

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Foreword

Appropriate policy and institutional reforms can have far-reaching positive effects on the management of natural resources, pollution levels or provision of urban environmental infrastructure. USAID has often worked with cooperating countries to design and implement policy changes for improved environmental management, and this report represents the first comprehensive effort to compile lessons learned from this experience and to draw implications for the improved future programming of such assistance.

This review was prepared by the Technical Advisory Group (TAG) of the USAID Global Environment Center's Environmental Policy and Institutional Strengthening (EPIQ) Contract. The EPIQ mechanism has proven to be a highly effective and well utilized vehicle for providing advice to USAID Missions around the world on issues relating to environmental policies and institutions, and the Global Environment Center is pleased to be contributing this type of support to USAID country programs as well as to the work of regional bureaus. The EPIQ consortium—led by International Resources Group—and the EPIQ TAG, chaired by Theodore Panayotou of the Harvard Institute for International Development, is to be congratulated for their work in producing this important analysis.

The report identifies ten easily understood lessons associated with the process of environmental policy dialogue which should be useful for both the design and implementation of future work in this field. It also includes a number of case studies—presented at the end of each “lesson”—which provide practical illustrations of how these lessons have been applied or overlooked.

When the report was first issued in draft form, the Global Environment Center sponsored a workshop—widely attended by all branches of USAID—to discuss its preliminary findings and to add further insights from those who are meant to serve as the review's primary audience. The lively discussion at the workshop provided many helpful suggestions which were used to make adjustments to the report where warranted. A summary of the recommendations which came out of the workshop is also attached as an annex to this report.

This analysis is intended as the first in a series of annual reviews to be sponsored by the Global Environmental Center on the how to make best use of policy and institutional strengthening efforts in USAID's environmental programs. The current report focused on the “upstream” aspects of policy analysis and dialogue, and the next analysis will center more on the “downstream” lessons associated with experience in the implementation of environmental policy and institutional reforms. We are pleased to be supporting this type of analysis and expect it to be readily applied to improving the efficacy of USAID's environmental assistance programs around the world.

The estimated cost for writing, printing and distributing this report is \$10,000.

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Preface

Environmental Policy Dialogue: Lessons Learned by EPIQ Technical Advisory Group²

The Technical Advisory Group (TAG) to the USAID Global Environment Center, as provided through the Environmental Policy and Institutional Strengthening Indefinite Quantity (EPIQ) Contract, assists the Environment Center in providing intellectual leadership for USAID on matters related to environmental policy and institutional strengthening.

To help build the Center's understanding of recent developments relating to environmental policy assistance, the TAG was charged (under Task Order No. 1) with preparing an analysis of important lessons learned from past and current USAID environmental policy and institutional strengthening efforts. It is intended that the findings of this study will be used by the Center and USAID field Missions to improve the programming of environmental assistance and to serve as input into the development of an environmental policy research and analysis program to be incorporated into the Environment Center's annual work plan. USAID conducts policy dialogue in several ways and through a broad array of forums. This Lessons Learned study on environmental policy dialogue, draws on experience of the Agency and other donors and development institutions.

This study focuses on practical lessons drawn from USAID's experience with policy dialogue in efforts to improve environmental and natural resources management as part of the economic development process. The study also addresses institutional strengthening aspects of the policy dialogue process. It spans the three major substantive areas of USAID environmental assistance—energy and environmental technology issues, urban environmental management, and natural resources management—and covers all four of USAID's geographic regions (Africa, Asia/Near East, Latin America/Caribbean, and Europe/Newly Independent States [NIS]).

This initial study of policy dialogue is the first in an annual series of similar Lessons Learned analyses to be sponsored by the Environment Center under the EPIQ contract. Topics for future years may include: policy implementation; policy instruments; addressing trans-boundary environmental problems; leveraging other donors and the private sector; and the growing global influences on environmental management decisions.

A preliminary draft of this report was written by TAG members, drawing on a Center-wide Environmental Policy Workshop (January 1997), on a TAG Brainstorming Session (June 1997), and on interviews of selected individuals from USAID and other development agencies engaged in policy dialogue. The document served as the principal background paper for a workshop on this subject for USAID environmental staff held on October 14, 1997. Suggestions made at this workshop have been incorporated into the report, and a summary of the meeting may be found in Annex A and B.

² The Technical Advisory Group (TAG) members responsible for this report were: Theodore Panayotou (Chairman); Asif Shaik (Co-Chair); Lee Baker; Charles Ebinger; Marilyn Hoskins; Michael Rock; Douglas Southgate; Michael Toman; and Jeffrey Vincent. David McCauley, EPIQ Senior Policy Advisor, and Douglas Clark, EPIQ Coordinator, also contributed to this report.

Acronyms

BAPEDAL	Indonesia's Environmental Impact Management Agency
BOD	Biological Oxygen Demand
C4EP	Central and Eastern Europe Environmental Economics and Policy
CABO Centre	for Agrobiological Research
CEE	Central and Eastern Europe
CFA	Communauté Financière Africaine, a unit of money
CSI	Common Sense Initiative of the EPA
EAPS	Environmental Action Support Program
EPA	US Environmental Protection Agency
EPIQ	Environmental Policy and Institutional Strengthening Indefinite Quantity
EU	European Union (insert EU)
FAO	UN Food and Agriculture Organization
FTPP	Forests, Trees and People Programme
GDP	Gross Domestic Product
GTZ	German Technical Assistance Agency (<i>Gesellschaft für Technische Zusammenarbeit GmbH</i>)
HIID	Harvard Institute of International Development
ICAS	Interstate Commission on Problems of the Aral Sea
IFRI	International Forestry Resources and Institutions
IMAZON	Institute for Man and the Environment of the Amazon (<i>Instituto de Homem e Meio Ambiente da Amazonia</i>), an NGO in Brazil
INEFAN	Ecuador's Institute of Forestry and Natural Areas
IPP	Independent Power Producer
JFM	Joint Forest Management
KIT	Royal Tropical Institute based in Holland
MANRES	Natural Resources and Environmental Management for Sustainability in Thailand
MPWWR	Ministry of Public Works and Water Resources in Egypt
NEPRA	National Electric Power Regulatory Authority
NGO	Non-governmental organization
NIS	Newly Independent States
NRMP	Natural Resources Management Program
OECD	Organization for Economic Cooperation and Development
PEPA	Pakistani fledgling environmental organization
PHARE	EU environmental program
PROKASIH	Indonesia's Clean Rivers program
PROPER	Indonesia's Environmental Business Rating public disclosure program
SIDA	Swedish International Development Authority
RRA	Rapid Rural Appraisal
TAG	Technical Advisory Group to USAID's Global Environment Center
UK	United Kingdom (Great Britain)
UN	United Nations
US	United States of America
USEA	US Energy Association
USAID	US Agency for International Development
WAPDA	Water and Power Development Authority in Pakistan

1. Executive Summary and Introduction

Policy Dialogue in Development Assistance. Policy dialogue is one of the many approaches that USAID and other development and environment agencies employ to bring about environmental policy change. Related interventions include policy analysis, training, exchanges and study tours, demonstrations and pilot projects. While this study focuses on lessons learned from environmental policy dialogue, effective policy dialogue clearly requires solid policy analysis, capacity building and pilot projects. Policy dialogue rarely stands alone without links to other components of overall technical assistance. However, the Agency exhibits little shared understanding and appreciation of the modes of policy dialogue and capacity building that generally achieve the desired results under specific circumstances. Policy dialogue crosses the bounds of USAID's environmental programs—natural resources (including biodiversity), sustainable energy production and use (including global climate change), and urban and industrial environmental management—and, along with other assistance, provides common ground for Agency-wide approaches to solving crucial environmental challenges.

Elements of Policy Dialogue. Policy dialogue, a difficult-to-define, multifaceted and multi-step process, involves two or more parties in continuous or intermittent exchange of ideas, analysis of issues, and exploration of available options aimed toward policy change. In a development context, it often involves one or more donor agencies, backed by technical expertise and engaged in policy debate with host-country policy makers, analysts and stakeholders from the public and private sectors and civil society. While financial resources also may be transferred with technical assistance, this is becoming much less common.

Goals of Policy Dialogue. Environmental policy dialogue strives to bring about policy changes that will improve the management of scarce natural resources and environmental goods and services. USAID policy dialogue has contributed substantially to significant environmental and natural resource policy reforms in the developing world and in the countries of Eastern Europe and the former Soviet Union. To a significant extent, environmental policy dialogue has been shaped by the Agency's experience with policy dialogue in other areas, such as agricultural development, as well as by the peculiarities of environmental policy and by specific circumstances (e.g., work in transitional vs. developing economies). All those working in support of USAID's environmental program around the world would benefit from a clearer understanding of how to initiate and structure an effective policy dialogue based on the experience of the Agency and other donors. This modest study attempts to further this understanding through the presentation of 10 lessons drawn from experiences around the world.

Three Categories of Lessons. The environmental policy dialogue lessons selected for detailed elaboration were classified into three groups: (a) initiation and context; (b) process; and (c) content.

a) ***During the Initiation and Context*** of policy dialogue, the following questions must be answered:

How do advisors interest policy makers and other shareholders in environmental policy reform? Here, linkage with the dominant economic and development concerns

and marketing reforms in terms of local benefit are key.

- # *When* is the right time to initiate an environmental policy dialogue or to push for a major change? Windows of opportunity—such as a new government, an environmental crisis, transition from a planned to a market economy, fiscal reform, and structural adjustment—present openings for policy reform.
- # *Who* should be involved in the policy dialogue? Critical participants include local stakeholders from the public, private, and non-governmental organization (NGO) sectors; local experts; other donors; and, above all, a local champion with the power, contacts, and/or moral imperative to see the policy dialogue and the reform process through.
- # *Where and how* should the policy dialogue take place? A variety of settings and forms, both formal and informal, are appropriate when timing, counterparts, and other conditions are met.

Lesson 1: Link environmental policy dialogue to economic development and to specific problems that improved policies can address. Enhancing environmental quality and conserving natural resources require addressing the economic challenges that developing countries and economies in transition face. While appealing to people's sense of stewardship can elicit vague expressions of sympathy, most countries, especially poor ones, are unwilling to make economic sacrifices to enhance environmental quality. Rather, environmental goals are more easily advanced when they contribute simultaneously to economic progress. Addressing environmental problems rationally means setting appropriate spatial and institutional boundaries for analysis and specific actions. Policy dialogue must be *co-terminus* with the problem.

Lesson 2: Market the benefits of policy dialogue in terms of local-level impacts. Government, donors, and NGOs can encourage and support widespread improvements in environmental management, but only local actors influencing specific resources can *implement* necessary changes. Therefore, any new, policy-driven environmental choices must make sense to those whose resources and hard work will produce change. *Local incentives* are the driving force for widespread adoption of improved methods. Removing policy obstacles to resource investment systematically helps to improve incentives. Nevertheless, all proposed local initiatives must undergo careful financial scrutiny to assure that potential *benefits* outweigh the costs and risks. Equally important, sociocultural incentives and obstacles, such as land and resource tenure and environmental awareness, require consideration. Local outreach and training often form necessary complements to environmental policy reform.

Lesson 3: Timing is everything—seize targets of opportunity. Effective policy dialogue is demand-driven, responsive to local interests, needs, and timing. Natural or manmade events can create an almost instant demand—targets of opportunity—for policy reform on the part of policy makers. Conversely, before policy makers and stakeholders express serious interest in dialogue, attempts to engage on policy issues rarely result in success.

Lesson 4: Involve all key stakeholders, but also assure that there is a policy champion.

Successful policy is locally made and owned, and the policy-making process is essentially political. Consequently, policy dialogue must have at least one effective champion who can become a significant national player. Effective policy championship begins early in policy development and continues well into implementation so that competing interest groups cannot derail policy reform, divert its original intent, or allow it to languish. However, the policy champion is only one important stakeholder. As many countries experience democratic consolidation, traditional political elites are learning to consult *all* key stakeholders when formulating policy changes. USAID and other development agencies now understand that simply engaging a traditional elite no longer suffices; meaningful dialogue with significantly affected parties is a prerequisite for lasting policy reform.

Lesson 5: Donor coordination is crucial for consistent and effective policies to emerge from the dialogue. Policy initiatives, by their very nature, must send *consistent* signals that *systematically* influence local decision making and incentives, and multilateral policy dialogue requires greater donor coordination than do other types of assistance activities.

Lesson 6: Policy change occurs in a wide variety of settings, and the dialogue must engage local as well as national actors. Policy advisors need to approach the policy development process in various settings with diverse parties, not only in formal meetings with senior government policy makers. Advisors should seize opportunities to work one-on-one or in small groups with a variety of individuals and organizations that could influence the policy process, including private sector representatives, local think tanks, and NGOs. A country's policy formulation processes can be difficult to understand and to influence, and foreign advisors working on short-term assignments are particularly likely to be at a disadvantage. Therefore, advisors must draw on local institutional capacity to carry out policy analysis, to disseminate findings, and to assist in policy implementation.

- b) **Process of Environmental Policy Dialogue.** The process of policy dialogue refers to the steps involved, the pace, the duration and the need for continuity, flexibility and reciprocity. Policy dialogue, a multi-step process, has different stakeholders and information needs in each step (see also Annex A). This nonlinear, dynamic process requires incremental management, but with a broad, holistic view. The process of policy dialogue depends critically on flexibility and on a two-way flow of information and ideas.

Lesson 7: Policy dialogue is not a “one-shot event” but a continuing process. Policy reform, an evolving, multistage process, requires patience and perseverance. Once the most obvious obstacle to efficient resource use or better environmental management is removed, other constraints appear. Unless policy dialogue continues to address emerging problems along the reform process, disappointment and frustration at the lack of results could reverse gains. Further, obtaining results quickly does not ensure sustainability. Even if results are obtained from the start, their sustainability is far from ensured. At the same time, lack of policy changes, despite sustained policy dialogue, does not necessarily equate to failure. Policy dialogue is a catalytic process of changing mindsets, and what appears as inaction might actually be a slow change of attitudes and perceptions that will later manifest in policy change and reform. Only by sustained engagement in policy dialogue can the undercurrents

of change be detected and translated into action.

Lesson 8: Policy dialogue requires flexibility and thrives on open and creative interaction among counterparts. Policy dialogue, a dynamic process, requires continuous adjustment and flexibility in light of changing economic, legal, political, and social circumstances. Flexibility in space and time applies both to policy dialogue process and content. The dialogue process can range from the most intense engagement to a virtual halt for assessment and readjustment. In between, the speed and intensity depend on windows of opportunity and emerging constraints. Changing circumstances or its own dynamics also dictate dialogue level. In terms of dialogue content, flexibility is key to: (a) reconciling ambitious environmental objectives with actual practice; (b) adapting general laws and regulations to particular situations; and (c) minimizing the economic, social, and political costs of the policy without compromising its objectives. Open, two-way communications between key players—often advisors and their counterparts—must be maintained to ensure continuous adjustment. Flexibility in the dialogue process may help relieve constraints on the dialogue’s content posed by legal requirements or traditions that must be respected—even as the policy dialogue aims to alter them.

- c) **Content of Environmental Policy Dialogue.** Content refers to the substantive and analytical input into policy dialogue. It answers the question, “what?” Effective policy dialogue depends on getting science and technology and politics and economics “right.” It requires solid analysis of benefits and costs, stakeholders’ politics, intervention points, implementation options, and future scenarios. Yet, policy formulation and, by extension, policy dialogue, should not be treated as scientifically correct or as a pristine exercise. Policy dialogue must also recognize cross-sector linkages, multidisciplinary perspectives, and gender issues while remaining spatially and contextually coterminous with the problem.

Lesson 9: Policy dialogue depends on solid analysis. A solid analytical basis for the conduct of policy dialogue has proven highly important. First, it helps establish the advisor’s and the donor’s credibility. Second, it helps the advisor and donor contribute to determining the underlying causes of an environmental problem, especially in cases where these causes are imperfectly understood. Finally, a dialogue based on reliable analysis will more likely result in effective policy.

Lesson 10: Policy dialogue is necessarily multidisciplinary and must also recognize cross-sectoral and gender linkages. Donors, policy makers, technicians, and communities need to work together through seminars, workshops, research and program monitoring for effective environmental policy dialogue to occur. A comprehensive understanding of opportunities for and constraints to better natural resource and environmental management is necessary to build the broad-based support that policy changes demand. Multiple complex issues override conventional sector boundaries, and diverse information must be integrated and made easily accessible to inform policy and planning decisions. Adopting interdisciplinary perspectives can be challenging and demands a continual review of both the environmental and socioeconomic effects of policy change. Strong consideration of gender and other equity issues throughout this process enhance the success of environmental policy dialogue.

Scope of the Study. While a heterogeneous and continuously evolving world precludes standardized approaches being easily transferred between sectors, times and countries, common lessons drawn from USAID and other donor experiences can improve program efficacy when modified to fit particular circumstances. Improving the effectiveness of policy dialogue also can substitute, to some extent, for dwindling resources. The multitude of lessons learned through more than a decade of intensive environmental dialogue could not all be covered in this study. Judgments made as to content may not meet the approval of everyone experienced in the Agency's policy dialogue. Lack of time and resources forbade developing all the lessons and case examples suggested. The authors take responsibility for all such omissions as well as the report's other shortcomings.

Organization of Each Lesson. In the remainder of this report, each lesson is first stated succinctly, followed by an explanation of what the lesson means, why it is important, and how it has been learned. Key underlying issues surrounding the lesson are then discussed in detail, including linkages, theoretical underpinnings, implementation issues, and citation of cases showing where the lesson has been learned. Selected case examples demonstrate each lesson and appear in boxes at the end of each section. A concluding paragraph discusses the programmatic implications of each lesson, effectively answering the "so what" question.

2. The Initiation and Context of Policy Dialogue

Lesson 1:

Link Environmental Policy Dialogue to Economic Development and to Specific Problems That Improved Policies Can Address

What Has Been Learned

Enhancing environmental quality and conserving natural resources require addressing the economic challenges that developing countries and economies in transition face. While appealing to people's sense of stewardship can elicit vague expressions of sympathy, most countries, especially poor ones, are unwilling to make economic sacrifices to enhance environmental quality. Rather, environmental goals are more easily advanced when they contribute simultaneously to economic progress. Addressing environmental problems rationally means setting appropriate spatial and institutional boundaries for analysis and specific actions. Policy dialogue must be *co-terminus* with the problem.

There is a serious problem in environmental policy dialogue, because people don't always understand or agree on the definition of either policy or environment. Unlike certain other fields, neither policy nor environment has sharply delineated boundaries.

Interview with Anthony Pryor, USAID Africa Bureau

Key Underlying Issues

Market Failures. The integrative perspective of environmental economics focuses on tradeoffs between environmental quality and demands for goods and services. Inefficient tradeoffs, or “market failures,” result when market prices reflect only private costs, ignoring damages from pollution or natural resource exploitation, and consumers neglect external environmental impacts of production, consumption, and other activities. An integrated environmental-economic perspective includes examining taxes, regulations, and other policy instruments that a government can apply to alleviate market failures.

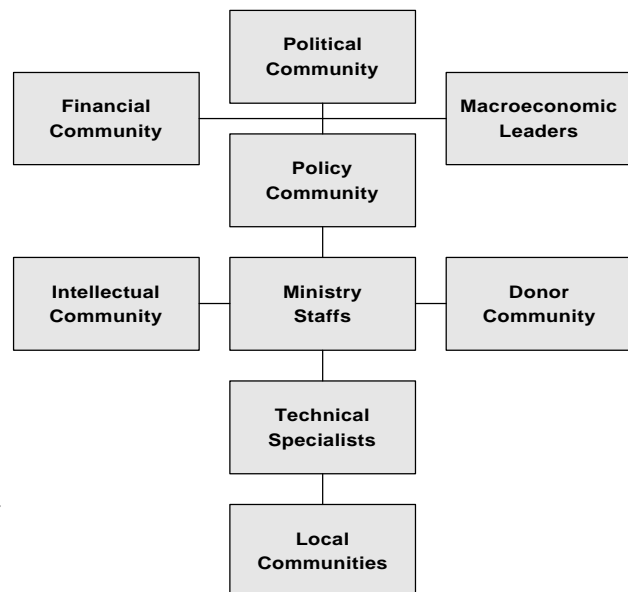
Policy Failures. While market failure is pervasive in poorer countries, excessive pollution and resource depletion often result from governmental suppression of market forces, scarce human capital, and weak institutional underpinnings for a market economy. Policy dialogue can best address such “policy failures” by focusing simultaneously on ways to increase productivity, enhance environmental quality, and contribute to economic well-being. For example, municipal water supply systems throughout the developing world have been heavily subsidized. Tariffs paid by those firms and households fortunate enough to have water system connections seldom cover the full cost of the service; central governments usually defray system financial losses. Thus, neither suppliers nor users have incentives to conserve water. At the same time, pumping stations, water mains, and related infrastructure are constructed and operated with little heed for cost-efficiency, and managers are

seldom responsible for financial shortfalls resulting from their decisions. Rather, the poor—who most often rely on unsanitary, expensive water sources—foot the bill. Finally, watershed management is a remote concern.

Appropriate Resource Pricing and Cost Recovery. Many opportunities exist to increase efficiency, to promote equity, and to conserve natural resources through appropriate pricing and cost recovery. In particular, increasing prices (and reducing subsidies) can impel water system consumers to use water more carefully. Moreover, the need to cover expenses out of revenues instead of tapping into the central government's budget inspires system managers to accurately account costs and encourage efficient design and operation of physical assets—and these managers are also more inclined to conserve watersheds. Appropriate resource pricing results in opportunities to extend environmental services to poor communities.

Macroeconomic Linkages and Incentives. Micro-level incentives reflect the macro options available. For example, if policy change aims to slow the rate of agricultural expansion into forested lands, then the macro-economy must offer farm households alternative ways of increasing household income; access to fertilizer and credit, market infrastructure, imported or domestic availability of agricultural machinery and foreign exchange policies may have as much influence on deforestation rates as forestry sector policies. If, as in the former socialist countries of Eastern Europe, the declared policy is to reduce energy consumption (and pollution levels) per unit of economic output, then it matters whether energy prices reflect true economic costs and whether the concepts of cost-saving and profitability create any appreciable benefits for those who make plant management decisions.

National and Global Context. Environmental policy options also depend on a society's broader economic, political and governance paths. The figure below illustrates the range of country stakeholders and policy advocates.) For example, the temptation to adopt command-and-control environmental approaches must be weighed against the growth and efficiency benefits of a market-driven economy. In the US, judicial and governance systems have strongly influenced environmental policy, including the right to bring suit against polluters and the public's right to information. In the rapidly expanding economies of Southeast Asia, the emerging concept of "Greening the Supply Chain" now affects public policies in environment: export industries depend on Western consumers who, in turn, place a high premium on environmentally responsible production. NGOs, both domestic and international, have gained influence as information networkers and lobbyists.



Linking Environment and Development. When people are convinced that habitats—or management practices associated with conservation—offer economic value, they are more eager to protect that habitat. For example, conservation efforts in Madagascar often concentrate on understanding and

improving agricultural practices in the regions surrounding parks and protected areas (see Box 1.1). In Ecuador, the government attaches major importance to preserving the Galápagos Islands since they comprise the environmental basis for a sizable ecotourism industry. In late 1992, tourism operators agreed to pay higher fees for access to the archipelago, once they were assured that additional revenues would fund improved environmental management (Box 1.2).

Spatial Dimension of Environmental Problems. Today's major global and local environmental problems—global climate change, biological diversity loss, unsustainable land use, natural resources depletion, air and water pollution, and the demographic-resource imbalance—all require action that crosses national, sectoral, and institutional boundaries. Watersheds provide excellent examples of such linkages: soil erosion in the Himalayas affects flooding in the Ganges delta; and deforestation in the Futa Jallon, through the effects of evapotranspiration, reduces water flows and irrigation potential along 1,000 miles of the Niger River. Boxes 1.3, 1.4 and 1.5 clearly demonstrate the importance of setting an appropriate spatial scale for policy dialogue that is coterminous with the problem at hand.

Programmatic Implications

1. Identify environmental deterioration caused by policy failure or inadequate investment in human and social capital and then focus on win-win opportunities that simultaneously improve environmental quality and development prospects.
2. Carefully appraise potential effects of environmental policy change on natural systems and populations to determine appropriate boundaries for environmental policy analysis and actions.
3. Include the underlying causes of environmental problems when preparing National Environmental Action Plans or other intervention programs, policy, and institutional reforms. Positive action requires a strong consensus that social costs associated with environmental mismanagement are taking a serious economic toll, and obvious policy failures must be addressed before dealing with market failures.

Box 1.1**Conserving Madagascar's Unique Biological Diversity through Rural Development**

The battle to conserve Madagascar's unique biological diversity cannot be waged in isolation from the country's economic and demographic challenges. A 1995 environmental analysis helped reorient policy dialogue focus from resource protection toward understanding the dynamic linkages between environment and development. Winning the environmental battle absolutely requires successful policies to address the economic battle.

Madagascar's population will at least double in the next generation, even with successful fertility reduction programs. Food availability must also double in 25 years, or grow at 3 percent per year. Most of this will need to come from growth in crop output and yields rather than imports. Most farmers in Madagascar are poor small holders, and most practice traditional land management. Little "intensification" of land use is as yet taking place, and most increases in output driven by the growing population's need for food security and survival take place through "extensification" of land use—pushing up fragile hillsides and out into biodiversity-rich forests. This means land degradation and shrinking commons—both of which spell even greater impoverishment of farmers and of the country as a whole.

Breaking the vicious circle of extensification and degradation of the farmlands and commons cannot sustainably be accomplished by somehow barring small holders from forests or hills—their strategies are based on desperation and current lack of alternative strategies. Rather, the battle to protect Madagascar's biodiversity will be won or lost on agricultural land away from the forest, because *the battle in which rural populations are engaged is about production and land use, not about the environment*. In this battle, environmental outcomes are the by-product of land management and production decisions. In the absence of a land management and agricultural production policy, there is no viable resource conservation policy, because how people manage land and production options determines what they do to the forest.

Key is the need to strike the right balance for program resource allocation. Specifically, the environment strategy needs to be adjusted by substantially increasing the emphasis on rural development and smallholder land management on farmlands and open-access lands, especially in areas where population pressure is the greatest, which are often far from the protected forests and parks. This will require links between sectoral programs.

The rural development path suggested is: (1) intensify production in the valley floors and lower hillsides, and (2) protect the land through anti-erosion investments on hillsides and upper watersheds. Intensification will require much more fertilizer and manure use, and roads and jobs to generate cash to help buy them and to sell the products. Land protection will require extension and cash to hire labor and greater valley yields to buy breathing room to make more investments. But poverty alleviation needs to be a key part of the strategy—rural poverty is the enemy of intensification and land protection, hence widespread rural poverty is directly and indirectly driving destruction of forests and hillsides. Poverty also exacerbates the dilemma by pushing population growth. Poverty alleviation will also enhance family planning programs.

There are critical time and scale elements in this strategy. It must respond quickly enough for poor peasants on the margin of survival. And it must make substantial numbers of small holders better off, rather than just reaching pockets of people in the buffer zones around forests.

Source: Prepared by Asif Shaikh.

Box 1.2**Winning Agreement for Higher Tourism Operator Fees in the Galápagos Islands**

The home of a large number of unique and endemic species, the Galápagos Islands are where Charles Darwin's observations during a five-week visit in 1835 later flowered into his theory of evolution driven by natural selection. An ecotourism industry, which generates tens of millions of dollars in foreign exchange each year, also thrives on the archipelago

Ecuador's Institute of Forestry and Natural Areas (INEFAN) administers the Galápagos and determines access fees to the park. Domestic and foreign visitors pay well-established entrance fees. But in the early 1990s, tourism industry payments to INEFAN were being scrutinized more carefully.

In 1991, Bruce Epler, then a University of Rhode Island researcher working on a USAID contract in Ecuador, carried out a study revealing that yearly berth fees (*patentes*) paid by cruise ship operators were ridiculously low. For example, *patentes* paid by large vessels, which could carry up to 100 guests and had annual net revenues of at least \$1.5 million, were under \$1,000.

In August 1992, these findings were presented to INEFAN's new director, Jorge Barba. He responded by calling a meeting attended by representatives of conservation organizations, local government, the tourism industry, and various government agencies. All agreed that the existing *patentes* were too low, but no consensus was reached as to an appropriate increase.

During the course of negotiations, municipal officials, concerned that higher fees might cause industry cut-backs, were won over with the promise that some additional revenues would benefit local projects, and industry representatives agreed to the policy change because additional monies would be spent on effective conservation measures.

By the end of the meeting, all agreed on raising the annual per-berth fee—from \$6 to \$200.

Source: Douglas Southgate, 1997. "Alternatives for Habitat Protection and Rural Income Generation," Inter-American Development Bank, Washington.

Box 1.3**Regional Policy Dialogue to Preserve Wildlife Habitats in Botswana**

Parks and protected areas in Southern Africa compete with alternative land use by local populations. Many rural producers earn higher short-run returns through resource mining than through sustainable resource use. Given low subsistence incomes, short-run profits are typically chosen over long-term sustainability. Inhabitants near parks and protected areas raise crops and livestock, gather fuel, and hunt wildlife on the land. Rapid, and sometimes alarming rates of degradation on these protected areas threaten rich environmental and biological resources. The region, richly endowed with some of the most attractive natural assets in the world, can support high-value tourism that can generate substantial income for local populations. If properly managed, returns from tourism could vastly exceed returns from resource mining, thereby reversing current incentives. High incomes derived from tourism create powerful, long-term incentives for resource conservation, while also directly increasing rural incomes. Multiplier impacts can further raise rural benefits.

However, national tourist potential must be augmented by cross-border visitors to make high-value tourism possible. Regional pulling power, enhanced by multiple destinations within the region, requires regional investment, skills enhancement, institutional capacity building and infrastructure development. Regional coordination in tourism development can enhance the attractiveness of packages offered, thus increasing the size of the regional tourism pie. Finally, tourism in every country depends heavily on a strong regional image overseas—turmoil in one country hurts all countries.

Tourism development in the Chobe Enclave in Botswana illustrates the need for policy dialogue to reach beyond the confines of local constraints. Without regional dialogue, improvements in national policy environments might still leave the desired result unattained.

The Chobe Enclave is located in northeastern Botswana, surrounded by protected areas that contain a wealth of wildlife. Such areas have enormous potential to attract tourists and provide income to the farming and herding families close to protected lands. To reduce the costs to the Chobe community that come from restricted livestock use and farming practices, the Botswana Natural Resources Management Project (funded by USAID) began a process of involving the community in the planning and management of a wildlife utilization proposal. Each village in the Enclave has participated in meetings to foster understanding of community-based resource management projects with a focus on wildlife quotas. Representatives from each village form the Chobe Enclave Conservation Trust board that manages wildlife quotas for the protected areas through a safari company. Through leases to safari companies, revenues can potentially provide more income to local populations than traditional subsistence activities. Since inception, revenues from tourism activities

Box 1.3**Regional Policy Dialogue to Preserve Wildlife Habitats in Botswana (*continued*)**

First, water resources management is critical. The Okavango Delta is supplied by rivers that flow across borders. To solve severe domestic water shortages, Namibia has initiated plans to divert a portion of the water from the Okavango River. Governments and environmental groups have expressed serious concern about the potential impact of this initiative on the viability of wildlife and tourism in Okavango. The policy dialogue has therefore moved to a regional discussion of the economic and environmental trade-offs.

Second, in both Botswana and Namibia, livestock fences—while not themselves cutting across national borders—have direct negative impacts on wildlife migration patterns, which do cross national borders. Policy dialogue with environmental ministries in Botswana will be inadequate. The dialogue itself must expand to fit the policy problem: sectorally, to cover livestock and economic actors; geographically, to cover transnational resource issues.

Third, the migratory patterns of wildlife require that neighboring parks and protected areas continue to provide viable habitat. Without this, no matter how successful the dialogue and ensuing measures in Botswana, wildlife herds will diminish. This, in turn, would directly undercut the attractiveness to tourists and the potential for revenue alternatives to low-value, subsistence, and resource-degrading economic activities.

Source: Prepared by Asif Shaikh.

Box 1.4**US-Central Asian Cooperation in Response to the Aral Sea Disaster:
Setting an Appropriate Spatial Scale for Policy Dialogue**

The Soviet desire for a textile industry to rival that of China and the US caused one of the world's greatest ecological disasters. Implementing a grand scheme to bring vast amounts of irrigation water to the deserts of Central Asia for cotton production, by the 1970s, three-fourths of the USSR's cotton output came from the then Soviet Republics of Kazakhstan, Uzbekistan, and Turkmenistan. The goal of making the Soviet Union self-sufficient in cotton production was achieved, but at a terrible price. In 1960, the Aral Sea received over 50 billion cubic meters of water each year from its two tributary rivers—the Amu Darya and Syr Darya. By 1975, this had fallen by 80 percent, and by the mid-1980s flows to the Sea had slowed to a trickle.

Even the few Soviet and Western environmental scientists who knew that diversion of the Aral Sea's waters would result in its gradual decline could not have envisioned the complex and deadly chain reaction this would set in motion. This environmental catastrophe has devastated the region's economy and left 3.5 million people without access to clean water and suffering from a host of environmentally related illnesses. A fishing industry which had supported 60,000 jobs collapsed within a decade. Thriving fishing ports were left 40 miles from the shore, and all other industries dependent upon the Sea's water supplies—from manufacturing to tourism—also collapsed. Unemployment now exceeds 60 percent in many parts of the region.

But this was just the start. Over 120,000 acres of former sea bed—laden with salts, pesticides, heavy metals and other poisons—were exposed to desert winds, creating toxic dust storms that now routinely blanket the region with lethal silt. The health of the surrounding population shows the effects: infant mortality rates are 60 per 1000 and maternal mortality levels have risen to 12 per 10,000. Agricultural productivity is declining rapidly from the combined effects of the ubiquitous salts and localized climate change. The salts, rising to the surface as the result of poor drainage in irrigation systems, are delivered as wind-borne deposits from the former sea bed and abandoned farm lands. The desert climate had been moderated by the Sea's presence—bringing milder winters with cooler and wetter summers. But the 70 percent reduction in the Sea's surface area has brought a shorter, drier growing period, and many areas have fewer than the 200 frost-free days needed for cotton production. This has prompted some farm collectives to switch to rice, requiring even greater quantities of irrigation water and accelerating the downward spiral.

In the late 1980s as word of the Aral Sea crisis spread, it prompted a significant protest from within the Soviet Union and an international outcry for action. Then Senator Al Gore wrote eloquently of it in his book "Earth in the Balance," and committees of scientists were convened to identify the causes and consequences of the problem and to seek concrete solutions—all at the scale of the entire catchment area feeding into the Aral Sea.

With the break-up of the Soviet Union, new challenges were introduced. The Aral Sea Basin suddenly encompassed parts of six independent republics: Kazakhstan, Uzbekistan, Turkmenistan, Tajikistan, Kyrgyzstan, and Afghanistan. This meant new institutions were needed to achieve agreement on water management at a scale appropriate to the problems being addressed. The five heads of state of the Central Asian Republics (excluding Afghanistan) met in 1993 and 1994 to establish an Interstate Commission on Problems of the Aral Sea (ICAS) and to pledge their support for cooperative solutions to the ecological crisis.

Box 1.4**US-Central Asian Cooperation in Response to the Aral Sea Disaster:
Setting an Appropriate Spatial Scale for Policy Dialogue (*continued*)**

The international community also responded. The US began with a focus on providing humanitarian assistance—by improving access to potable water supplies—for those in the zone of greatest need. The assistance centered on a major program to improve access to safe and reliable drinking water supplies. The World Bank contributed substantially, making clear its backing for a regional approach to the problem and supporting a broad-based program of studies meant to define a set of concrete investments in the water sector. The European Union (EU) stepped in with related analyses of water and agricultural institutions.

USAID's investments in providing drinking water access helped to create strong working relationships with the region's new governments on issues of water management. Beginning in 1995, this credibility was used to establish a new USAID-supported regional program on water resources management to introduce concepts of water economics and conservation prevalent in the US and Europe to the Aral Basin.

US experts felt that the greatest single barrier to more efficient use of scarce water resources in the region was the lack of any effective water pricing—whether for domestic, industrial, agricultural or other purposes. Introducing the notion of water metering and pricing to republics scarcely emerging from their communist past seemed a radical idea at the time, but it quickly caught on among water planners and environmental officials alike. A recent survey found that all five republics now have some form of water pricing in place. Even in Turkmenistan, where President Niazov has decreed all water to be free, charges are gradually being introduced—for the cost of delivery, not the water itself.

The US-sponsored policy dialogue on water pricing soon led to work on an even more pressing issue: averting conflict over competing water uses between upstream and downstream states. The USAID project first sponsored a region-wide conference on water quality issues. The initially pure waters from the Tian Shan Mountains of Kyrgyzstan, Tajikistan and Afghanistan become highly polluted with wastes from industry, mining, cities and agriculture as they make their way toward the Aral Sea. In cooperation with the World Bank, a plan of action was prepared for cooperative efforts to address a variety of upstream-downstream water quality issues.

Even more contentious than water quality problems are concerns about water quantity distribution. The major question is whether upstream reservoirs should be used primarily to store water for irrigation or to generate hydropower. During the Soviet period, reservoirs were for agriculture, and upstream states received their power supplies through the planned economy. But now energy and water transactions must take place in an international context—and increasingly in the marketplace. The problem is most acute in the Syr Darya River, where Kyrgyzstan is inclined to run the power turbines of its Toktogul Dam all winter to provide cheap electricity for heating. This creates huge problems for the downstream states of Kazakhstan and Uzbekistan who want the water stored for their summer growing seasons. But there is a further problem. If the water is released for hydropower in the winter, the frozen rivers cannot accommodate the flow and much of the water is diverted to an inland depression in Uzbekistan and will never even reach the Aral Sea!

Because these water sharing issues are so vital to the economies of the three republics, a series of one-year agreements had been negotiated between Kyrgyzstan, Uzbekistan and Kazakhstan to set the water release pattern from Toktogul Dam in favor of agriculture, with compensation in the form of cash payments and transfers of gas and coal to Kyrgyzstan. In an effort to move beyond these ad hoc arrangement, US water and energy experts have been working alongside their Central Asian counterparts to devise an equitable multi-year agreement for water sharing in the Syr Darya River based on US experience and incorporating principles of fair cost allocation and compensation.

Box 1.4**US-Central Asian Cooperation in Response to the Aral Sea Disaster:
Setting an Appropriate Spatial Scale for Policy Dialogue (*continued*)**

After two arduous years of policy dialogue, the basis for a new five-year interstate agreement recently was established which links the three countries plus Tajikistan in cooperation to wisely use the Syr Darya's waters. The agreement will also help to ensure adequate annual flows to the Aral Sea to support its stabilization and gradual restoration.

This case illustrates the obvious need for the organization of policy dialogue at a scale appropriate to the environmental problems being addressed. Furthermore, what began as an effort to deal with the acute problems of a shared ecological catastrophe evolved into an opportunity to promote regional peace and prosperity. By assisting the Central Asian states in their efforts to reduce tensions derived from natural resources scarcity and mismanagement, USAID is helping convert water issues from a source of conflict into a force for peace and economic stability. Soviet water management practices turned a sea to sand and left the livelihoods and health of millions at risk. Now US-Central Asian cooperation is not only addressing this legacy but is also building a strong foundation for future regional cooperation in economic development and other spheres.

Source: Prepared by David McCauley

Lesson 2:

Market the Benefits of Policy Dialogue in Terms of Local-Level Impacts

What Has Been Learned

Government, donors, and NGOs can encourage and support widespread improvements in environmental management, but only local actors influencing specific resources can *implement* necessary changes. Therefore, any new, policy-driven environmental choices must make sense to those whose resources and hard work will produce change. *Local incentives* are the driving force for widespread adoption of improved methods. Removing policy obstacles to resource investment systematically helps to improve incentives. Nevertheless, all proposed local initiatives must undergo careful financial scrutiny to assure that potential *benefits* outweigh the costs and risks. Equally important, sociocultural incentives and obstacles, such as land and resource tenure and environmental awareness, require consideration. Local outreach and training often form necessary complements to environmental policy reform.

Key Underlying Issues

Political Economy. Whether dealing with the global issues of climate change and biodiversity or local issues like village production systems and local water quality, the basic *policy* question remains. How can public policy (within the society's basic economic, political, and social frameworks) influence individual choices in ways that lead to preferred environmental outcomes? A basic lesson learned over nearly thirty years of environmental policy efforts is that people choose outcomes that they believe will help them. Policy makers must find solutions that offer practical benefits while also effecting preferred environmental outcomes from broader societal perspectives.

Economic Transition. With a billion people and a gross domestic product (GDP) growth rate approaching 9 percent per year, China's heavy reliance on coal causes severe air pollution problems for its citizens and is becoming a dominant contributor to global warming. Through longstanding international discussions, Chinese policy makers recognize the potential *global* impacts of continued dependency on coal. However, a quarter of a billion Chinese households are also involved in a pressing and equally historic transition—from a poor society to one of middle class consumption; from a technically backward to a technologically advanced economy; from a society facing periodic food insecurity to one with filled refrigerators; and, most important, from a generation who has suffered much hardship to one whose children can aspire to a comfortable economic life. Like Western societies before them, the Chinese are choosing economic welfare over global environmental considerations.

Global-Local Linkages. Depletion of the world's rainforests contributes to global warming and to loss of biological diversity. But, whether in Central Africa, Madagascar, the Amazon or Indonesia, deforestation is driven by local opportunities and localized incentives that ignore the costly environmental degradation. Large timber concessionaires in the Amazon, Borneo or Gabon will not readily sacrifice hundreds of millions of dollars in income for diffuse environmental gain. In

Madagascar, which has among the richest and most diverse biological resources in the world, efforts to sell biodiversity as a reason to protect the forests have been unsuccessful. Environmental groups committed to preserving Madagascar's biodiversity recognize that increasing economic opportunities for poverty-burdened Malagasy farm households is the only effective way to protect a resource so highly valued by the outside world. And in Niger local impacts served as incentives for resources management (Box 2.1).

Attitudes Change with Rising Incomes.

With average GDP growth rates of more than 6 percent for two decades, Southeast Asian countries now manifest the more nuanced approach to local level impacts characteristic of middle-income economies. While urban pollution and congestion were acceptable prices for higher incomes, populations are now willing to trade some income potential for environmental, health and welfare benefits. Priorities for desired local impacts vary according to complex income, social and environmental factors; nonetheless, the motivating impacts are not global, or even national, but *local*.

Other Values. In the US, even well-off, environmentally conscious consumers do are slow to sacrifice amenities that cause pollution. Commonly used bleached white paper towels or coffee filters, for example, generate up to three times the pollution of unbleached, brown paper products. Simple choices thus sustain pollution levels that could be reduced with no apparent loss of income.

The most dramatic change observed in rural Niger over the last five years is the perceived urgency of the need to do something to compensate for degrading resources. In areas where the ratio of population to fertile land is high—from the rich and densely populated areas of the Dallol Bosso to the arid and sparsely settled zones around Badaguicheri—little or no fallow remains. Therefore, the passage from low-input rainfed production to more intensified management has become personal and immediate, often about this year's crops, only a few months from planting. As more farmers have intensified production to offset falling yields, the benefits of intensification are more apparent. In each village visited, some farmers have visibly increased production and income while beginning to stabilize resources.

*Shaikh and McGahuey
Capitalizing on Change*

Programmatic Implications

1. Policy dialogue must recognize political and economic considerations and accurately inform participants about the gains and losses resulting from policy change.
2. Local environmental problems that cause negative global impacts require local solutions that generate local benefits.
3. Day-to-day decisions determine the fate of the environment, and environmental outcomes result from basic consumption and production choices

Box 2.1**Local Impacts as the Incentive for Improved Resource Management in Niger**

Traditional agriculture in Niger maintained a complex land use interaction between herding and agriculture, both biophysically and through interdependence of specialized ethnic groups (an interaction often poorly understood by outside advisors). The society's organizing principle sought to sustain the nutrient balance of cultivated land. With an abundance of land relative to population, long fallow periods allowed *natural renovation* to make the principle contribution to restoring soil fertility, with the *organic matter* from livestock being deposited during the transhumance. Finally, *vegetation* served as the custodian of ecological equilibrium, providing forage for the animals, supplying forest products and fall-back foods for communities, cycling nutrients, and protecting the soil from the impact of wind and water erosion.

Under the pressure of rapid population growth, traditional balancing mechanisms no longer work. *Soil mining*, a practice that extracts more nutrients from the soil than are put back in, has been documented in several scientific studies throughout the Sahel, including studies by the Royal Tropical Institute (KIT) and by the Centre for Agrobiological Research (CABO), both in Holland. Over the last generation, shortened fallow periods, type of soil mining, successfully obtain higher than sustainable yields. However, productivity has declined, and the long-term cost includes an accelerating loss of resiliency in the ecological system. Demographic pressure, which forced resource mining in the first place, has brought more problems: throughout the country, fallow is rapidly disappearing as a farming systems option. As a result, the present situation is more acute. *Jachère contrainte* (forced fallow) involves abandoning land that no longer produces, but does not necessarily assure access to more productive land. Often the *glacis* (crusted-over soils denuded of vegetation) offer the best available option for restoration and intensified management.

Vegetative cover has been in a long, slow decline for decades. Demands for fuelwood, construction materials, and forage have kept pace with the tripling of rural population since 1950. Each new rural inhabitant also requires approximately one-half hectare of agricultural land. Since 1950, at least 4 million hectares of vegetated land has been converted to agriculture. *Sustainable yields* from the forest are well below what is being consumed in all parts of Niger, both as a result of increasing demand and a shrinking number of vegetated hectares. The gap is being filled by *resource mining*—eating into the resource stock and further aggravating future imbalances between sustainable yields and consumption.

Clearly, traditional rural production systems require environmental balance in order to function; given population pressure and current levels of resource depletion, restoration of both rural income and the environment requires a new set of balancing mechanisms. With current population and traditional land-use practices, insufficient biophysical capacity can neither maintain nor to increase production. Improved natural resources management can allow increased production for a number of years—it buys time. A *combination* of improved natural resources management, small-scale infrastructure, and external inputs, including chemical fertilizers, can extend the horizon of stable or growing per capita production another 20 to 40 years.

The central strategic question for policy makers is whether Niger has the biophysical capacity to restore equilibrium and support a growing population. The answer has two parts: (a) Biophysical capacity can support real per capita growth in agricultural output of 2 to 4 percent per year for the next generation, *if improved land-use management practices are widely adopted*, including eventual use of external inputs; (b) this success is biophysically feasible, *but cannot be separated from changes in the incentives system, in the cost-benefit of specific land-use and investment choices, from the growth of markets and from trade and commercial production.*

Box 2.1**Local Impacts as the Incentive for Improved Resource Management in Niger (*continued*)**

After decades of policy-level alarm about degrading resources and productivity, local populations offered limited response because soil mining helps forestall local impacts on production and income. Since about 1990, as short-term, local production has become extremely constrained, the number of farm households adopting improved natural resources practices has accelerated sharply. Interviews of several hundred villagers from 1987 to 1994 indicate that local, household-level impacts are the dominant factor in forcing new production practices. New opportunities that alter the *local incentive structure*—such as the devaluation of the CFA franc, the growth of urban markets, and regional economic and trade impacts (particularly vis-à-vis Nigeria)—provide dramatic impetus to the transition from rain-fed subsistence agriculture to input-based commercial production.

Source: Prepared by Asif Shaikh.

Lesson 3:

Timing Is Everything—Seize Targets of Opportunity

What Has Been Learned

Effective policy dialogue is demand-driven, responsive to local interests, needs, and timing. Natural or manmade events can create an almost instant demand—targets of opportunity—for policy dialogue on the part of policy makers. Conversely, before policy makers and stakeholders express serious interest in dialogue, attempts to engage on policy issues rarely result in success.

Key Underlying Issues

Unforeseen Events and Opportunities. Targets of opportunity dramatically increase the interest of policy makers and stakeholders in policy dialogue and can enhance substantially the policy advisor's influence on policy dialogue. Events that create these opportunities include, for example, changes of government or senior officials, government response to citizens' demands or demonstrations, exposure of a high-profile environmental problem by the media, a manmade calamity such as an oil spill, or a natural disaster such as a drought.

Government Changes. Changes of government or senior personnel changes within a government—local, regional, or national—frequently provide new, and sometimes foreseeable, opportunities for policy dialogue. These changes often correlate with a shift in relationships among stakeholders that can remove previous constraints to policy changes. Newly elected governments can demonstrate an urgency for swift action and quick successes (Box 3.1). However, where the new officials perceive the foreign advisors to have been “too close” to the previous government, such changes can have the reverse effect.

NGO Leadership Changes. Targets of opportunity also occur with leaders of NGOs. Improved policy dialogue can give NGO participants increased access to government policy makers and thus boost interest in dialogue with foreign advisors, especially where strong NGO–advisor relationships already exist.

Role of Foreign Advisors. Foreign advisors can take best advantage of targets of opportunity when they have already established relationships of trust with their counterparts—even if significant, observable results in policy development and reform have not yet emerged. Advisors who appear to be “at the right place at the right time” often have quietly been in the vicinity for some time, building relationships that bear fruit most visibly at times of crisis or change. Sometimes, however, changes in government or of senior officials can accelerate interest in swift action, leading to rapid acquaintance with a foreign advisor.

Establishing a Track Record. Providing useful advice through policy dialogue at crucial times can also create opportunities for future dialogue. Advisors who engage in productive policy dialogue during stressful and challenging times are more likely to be called upon again on matters both routine

and extraordinary.

Linking Environmental and Market Reforms. Other windows of opportunity can result from a confluence of changes. For example, market reforms in Kazakhstan and the Almaty's municipal administration's efforts to control industrial pollution in combination with the Soviet-era legacy of a pollution-permitting system opened up the opportunity for the introduction of a pilot emissions trading program (Box 3.2).

Challenges of Maintaining Flexibility. Workloads and resource requirements can increase dramatically when targets of opportunity lie outside the parameters of an existing work plan or challenge previously planned activities. This can make rapid redeployment and reallocation of USAID and/or implementor resources necessary, placing a premium on swift and flexible administrative actions that facilitate effective response. Administrative challenges may also require agreement from counterparts to disengage from activities that suddenly have a lower priority.

Programmatic Implications

1. USAID and its implementors should recognize “targets of opportunity” as occasions to begin a new policy dialogue or move a stalled dialogue forward.
2. A small (but not exhaustive) list of foreseeable events, such as elections, create targets of opportunity and should be recognized.
3. Advisors who have established good relationships and track records are best able to take advantage of targets of opportunity.
4. USAID should recognize that taking advantage of targets of opportunity may mean deviating from accepted work plans and reallocating resources—sometimes on short notice.

Box 3.1**Sri Lanka: Timing Is Everything for Policy and Institutional Change**

Sri Lanka's organizational structures for environmental and natural resources management have long frustrated those working in this field. When an Environment Ministry was created in 1990, it was placed under the cabinet minister for Environment and Parliamentary Affairs. Although a Central Environmental Authority responsible for pollution control and environmental impact assessment was placed under its oversight, it formed no clear links with broader natural resources agencies such as the Department of Forestry, the Department of Wildlife Conservation, or the Coast Conservation Department.

Election of a new government in 1994 offered an opportunity to rearrange environmental and natural resources management responsibilities so that similar functions could be clustered. Institutional analyses conducted by USAID-supported policy advisors prior to the announcement of the new cabinet-level ministries proposed either that key natural resources agencies be grouped (the "green" model) or that the pollution control and urban development authorities be linked (the "brown" model).

However, despite considerable behind-the-scenes lobbying by government insiders and their consultants as well as NGOs, the functional agencies actually were further disassociated. A Ministry of Transport, Housing, Environment and Women's Affairs was created, and the Departments of Wildlife Conservation and Forestry were placed in other separate ministries. The new government had come to power after a 17-year hiatus, and political considerations in the grouping of functions far outweighed organizational arguments.

When Sri Lanka's cabinet was reshuffled again in June 1997, the same organizational arguments and background studies were again considered. No longer so burdened by disparate political interests, the government has significantly improved the way environment and natural resources management is handled. While the Department of Wildlife Conservation remains in the Ministry of Plantations and cut off from other environmental agencies, the new Ministry of Forestry and Environment—which also governs the Central Environmental Authority covering pollution control—considerably elevates the profile of environmental concerns in the country. For the first time in Sri Lankan history, guardianship of a major portion of the nation's protected lands combines broader responsibilities policy and programs to manage the environment.

Source: Prepared by David McCauley.

Box 3.2

Reforming Air Pollution Policies in Kazakhstan

In late 1994, USAID-funded environmental policy advisors began a dialogue with Kazakstani counterparts about ways to reduce air pollution without unduly burdening the country's struggling industrial sector. Air pollution is particularly acute during the winter months in Almaty, the country's capital city and largest urban and industrial center, when the Tien Shan mountains trap emissions from industrial facilities and inefficient, coal-fired heating plants. Solving this problem requires substantial investments in both improved processing technologies and pollution control equipment, with costs and emissions impacts varying greatly across different investment options. Kazakhstan's economic difficulties require *cost-effective* pollution regulations that create incentives for investment funds to flow to the options that achieve air pollution reductions at the least cost.

The cost-effectiveness of environmental regulations depends greatly on flexibility, with command-and-control regulations usually less cost-effective than market-based approaches such as pollution charges and tradable pollution permits. One of the ironies of the centrally planned Soviet Union was that its environmental regulatory system, though obviously deficient in many respects (particularly with regard to enforcement), was less command-and-control oriented than that of the US. It relied less on technology standards that dictate the pollution technologies that industrial facilities must use, and more on performance standards, which specify target levels of pollution control but not the means used to obtain them. It granted polluting facilities permits that gave them the right to discharge pollution up to a specified maximum load. The permit system was coupled with a pollution charge system: the right to pollute was not granted free of charge, even for pollution loads within the permitted amount.

Parties on both sides of the dialogue in Kazakhstan recognized that the existing environmental regulatory system provided a promising opportunity to strengthen the role of market forces in achieving cost-effective reductions in air pollution. The dialogue, therefore, centered around ways to enhance its market-related features. Principal recommendations from the dialogue included raising pollution charges to levels that more closely approximated the environmental damage costs of pollution and introducing tradability into the permitting system, so that high-cost abaters can in effect pay low-cost abaters to abate for them. Although the former recommendation has not yet been fully adopted, the latter resulted in the establishment of a pilot emissions trading program that had its first trade in late 1996. This program is the first functioning stationary-source air emissions trading program outside the Organization for Economic Cooperation and Development (OECD).

One lesson from this experience is that policy dialogue can often take advantage of "windows of opportunity." The introduction of market principles would have been more difficult if Kazakhstan's environmental regulations had more of a command-and-control nature. A second lesson is that policy dialogue must be at the appropriate level, which does not necessarily mean the highest level. Government counterparts involved in the dialogue about the emissions trading program were, not surprisingly, primarily from the Almaty municipal administration. Indeed, municipal counterparts, not central government counterparts, provided the main impetus for the program. Counterparts from the central government did participate in the dialogue, however, as the central government needed to authorize the program.

Source: Prepared by Jeffrey Vincent.

Lesson 4:

Involve All Key Stakeholders and Find a Policy Champion

What Has Been Learned

Successful policy is locally made and owned, and the policy-making process is essentially political. Consequently, policy dialogue must have at least one effective champion who can become a significant national player. Effective policy championship begins early in policy development and continues well into implementation so that competing interest groups cannot derail policy reform, divert its original intent, or allow it to languish. However, the policy champion is only one important stakeholder. As many countries experience democratic consolidation, traditional political elites are learning to consult *all* key stakeholders when formulating policy changes. USAID and other development agencies now understand that simply engaging a traditional elite no longer suffices; meaningful dialogue with significantly affected parties is a prerequisite for lasting policy reform.

Key Underlying Issues

Local Champion. The goal of policy dialogue is policy change and requires a local champion to serve as initiator, articulator, facilitator and consensus builder. The absence of such a champion—whether at the national or local levels—has hindered reform efforts in many countries (Box 4.1). Champions are more difficult to recruit for environmental policy projects than for economic reform projects, especially in the poorest countries and transition economies. In some situations, champions must be developed by supporting environmental capacity-building efforts (which provide incipient champions with the skills, knowledge, and technical support) and by promoting participatory decision-making processes (forming an effective political constituency to back the champion's efforts).

Constituencies and Stakeholder Analysis. Building a political constituency for reform takes time, especially in the environmental sector. Identifying and engaging a champion early in the process raises the chances of success. Supporting short-term consultancies on specific, well-defined environmental policy issues before embarking on a major policy project can provide an opportunity to identify effective counterparts and stakeholders. A good example is provided by Indonesia's public disclosure program for water pollution (PROPER), which from the inception of the idea into its implementation benefited from the leadership provided by a senior Indonesian environmental official (Box 4.2).

Participatory Decision Making. Few parts of the world have a deeply rooted, truly participatory and democratic approach to policy making. Memories of totalitarianism are fresh in many places where USAID and other development agencies are active. Even where reasonably free and open elections are held regularly, democratic consolidation is not far advanced, and top-down decision making by a political elite continues. While working with such an elite can produce direct and immediate impact on public policy, experience shows that these results are largely superficial. For every dictatorial or quasi-dictatorial leader, party, or military junta willing to embrace innovative environmental and resource policies, at least a dozen more would rather keep people quiescent with low energy prices and subsidies for inefficient, polluting parastatal industries. Even if a regime puts good policies in

place, key constituencies may not approve, causing policy reversal when the government changes. As participatory decision making becomes a fact of life throughout the world, efforts to alter public policy have greater potential for success when key stakeholders are consulted. In many places, engaging only a small elite in environmental policy dialogue is no longer viable (Box 4.3).

Stakeholder Identification and Participation. As traditional political elites in many countries are learning—often the hard way—formulating policy change necessitates consulting all key stakeholders. From Ecuador comes an example of the pitfalls of a non-participatory approach to policy making. Heeding the advice of international consultants and conscious of recent property law reform in other parts of Latin America, the Ecuadorian government in 1994 legislated major changes in communal property arrangements. However, indigenous leaders contended that they had been ignored and demonstrated their dissatisfaction by organizing a national strike. In response, the president withdrew the law, pending review by a special commission that included the indigenous leaders. The commission engaged in the sort of dialogue that should have occurred in the first place, and all concerned came to accept marked changes in Ecuadorian property law that many had vociferously criticized just a few months before (Box 4.4).

Special Interests, Consensus Building and Coalitions. While meaningful consultation with all key stakeholders is integral to successful policy dialogue, unanimous support is not required for all reform and limited accommodations can be made for affected groups. Decision makers must be prepared to override special interests bent on impeding an initiative yielding sizable net benefits for society at large. A case in point is the firmness with which Quito's municipal government and its mayor implemented controls on vehicular pollution (Box 4.5).

Policy Awareness and Education. One high-level representative of a development bank who is stationed in Latin America emphasizes the distinction between direct dialogue and *policy influence*. He asserts that any particular agenda is advanced most effectively in an indirect manner by funding national institutions to carry out studies that bear on policy issues and communicating findings to policy-makers and key stakeholders. The degree of influence depends greatly on research quality, with likely acceptance of findings by national researchers and institutions. Foreigners, especially short-termers, are not taken as seriously. The development bank's representative has concluded that policy reform cannot be pushed—only sold—and its most effective advocates are the country's own citizens. As democratic institutions, including civil society, grow more articulated in the developing world, any international organization favoring policy change through dialogue will find that the best option is to cultivate and support local institutional partners (Box 4.6).

Programmatic Implications

1. Initiating successful policy dialogue often depends on whether a local counterpart exists who is both committed to leading the policy reform process and has the political stature to do so effectively.
2. By supporting consultancies on specific environmental policy issues, USAID can identify effective counterparts and stakeholders or help develop champions by supporting environmental capacity-building efforts and by promoting participatory decision-making processes.

3. As countries become more democratic, engaging traditional elites in dialogue no longer guarantees policy reform. Instead, all key stakeholders must be take part, and indirect influence through support to local organizations, offers the most promise.

Box 4.1

Pakistan: Private Sector Power Project (1990–1994)

During the early 1990s, USAID was involved in a major effort to introduce private power into Pakistan. The country's growing shortage of electric power with attendant shortfalls in industrial and agricultural production and acute concern over the impact of rising oil import bills demonstrated the need to develop indigenous energy resources and expand the power sector.

To execute the project, USAID, contracted with a private firm to place four long-term resident advisors in the country (a Chief of Party; an advisor to the Water and Power Development Authority in Pakistan (WAPDA), the national utility; an environmental advisor; and a coal advisor). While the project successfully attracted private power into the country and created institutions in both the Ministry of Water and Power and WAPDA, capable of evaluating complex IPP projects, goals for the coal sector were not met, environmental assessments were not well-integrated into the approval process for independent power producer (IPP) projects, and no effective regulatory regime was created.

In the coal sector, serious design flaws dogged the project. Pakistan's constitution gives provinces control of coal resources. When USAID proposed creating a coal advisor in the Ministry of Petroleum and Natural Resources—without any real champion in the Ministry or consultation with provincial authorities—the provinces saw it as a direct attempt by the federal government to assert sovereignty over provincial resources. Project design also paid little attention to the financial and technical capacity of the coal industry and to its antiquated labor practices. In short, policy dialogue was never successful.

Similarly, project design called for an environmental advisor to help create institutional capacity in the GOP to assess the environmental impacts of all IPP projects. While a fledgling environmental organization (PEPA) already existed, the environmental advisor was placed in the Private Power Cell of the Ministry of Water and Power even though no high-level support and no real environmental champion existed. The GOP accepted this position only because it was a precondition of the World Bank for funding of IPP projects and because USAID made the acceptance of World Bank environmental guidelines a precondition for the provision of technical assistance.

Despite many obstacles, extensive, continued policy dialogue with all the requisite federal institutions and detailed meetings with all provincial authorities made the creation of the National Electric Power Regulatory Authority (NEPRA) a great success. Nevertheless, following the withdrawal of USAID from Pakistan in late 1994, NEPRA was bypassed by powerful ministries and never exercised full authority on which an earlier consensus had been reached. Thus, policy work is never finished and requires real champions and real benefits for all stakeholders.

Source: Prepared by Charles Ebinger.

Box 4.2

Policy Dialogue and Environmental Policy Change in Indonesia

Environmental agencies in developing countries are frequently new, understaffed, and underfinanced, making it difficult to sustain Western-style command-and-control monitoring and enforcement programs. One environmental agency, Indonesia's BAPEDAL, responded to this challenge with several carefully crafted, innovative, regulatory programs. Two of those programs—the Clean Rivers or PROKASIH program, and an environmental business rating or the PROPER program—economized on scarce monitoring and enforcement resources, mobilized support for better environmental performance from other agencies, and relied on community and market pressures to significantly increase compliance.

What made PROKASIH and PROPER work? Successful learning by doing, substantial advocacy and commitment of senior officials in BAPEDAL, judicious use of technical assistance, and keen cultural and political sensitivities of those charged with designing and implementing the new programs all contributed.

To begin with, senior managers in BAPEDAL considered how to turn a disadvantage (the lack of sufficient resources to develop and sustain a command-and-control monitoring and enforcement program) into an advantage. First, using concepts from social marketing, the program built support for a cleaner environment within the Indonesian public. This was followed with a highly targeted semi-voluntary Clean Rivers (PROKASIH) Program. Small interagency teams, which included local and provincial officials, identified the dirtiest portions of particular rivers—20 percent of the polluters were responsible for 75 percent of the (biological oxygen demand) BOD load. By focusing monitoring and enforcement on the few polluters responsible for the bulk of pollution and encouraging voluntary pollution reduction agreements with large polluters, the median reduction in BOD load under the Program was 59 percent, while the BOD discharge per unit of output fell by about 55 percent.

PROKASIH experiences were critical to PROPER's success, a program that relies on public disclosure of environmental performance to improve compliance. Like PROKASIH, PROPER focused on significant water polluters. But PROPER went one step further. It developed a color-coded system to rank and publicize the environmental performance of monitored polluters. Because politically powerful industrialists own some of the factories PROPER would rate, PROPER's success depended on designing and implementing a simple but highly credible environmental rating program. This required (1) translating complex environmental regulations (standards) into one of five color codes that could easily become meaningful to the Indonesian public, (2) designing a coding system that minimized errors and the possibility for abuse, and (3) structuring the program in ways to insulate it from political pressures from well-connected figures who might disagree with the outcome of the rating system. These requirements were met by a combination of targeted short-term technical assistance from the donor community, wise use of concepts from social marketing to design a color coding system that was likely to be meaningful to the public and initially rewarding good performers with positive publicity rather than punishing poor performers with bad publicity.

Each of these elements was critical to program success. Targeted short-term technical assistance helped develop a transparent, computer-based monitoring and coding system that minimized the risk of rating errors and abuse of the color-coding ranking system. The user-friendly computer model was demonstrated to high-ranking government officials, the press, environmental NGOs, and the business community. This proved critical to gaining support for the program. Two other elements were equally important. For one, the color codes chosen—gold for superior performance, green for beyond compliance, blue for compliance, red for being out of compliance, and black for being an egregious

Box 4.2**Policy Dialogue and Environmental Policy Change in Indonesia (*continued*)**

violation of standards—reflected cultural sensitivities in Indonesia so that they had meaning that the public could readily identify with. Finally, political opposition from the business community was overcome by demonstrating the coding system to businessmen and by giving plants with poor ratings six months to improve ratings before results were released to the public. Both worked. As a result, the number of black ratings fell by 50 percent between initial and final ratings, and there was a 20 percent increase in the number of plants in compliance (blue ratings). More importantly, both the press and the business community see the rating program as fair and credible.

There is no doubt that the combination of commitment to learning by doing in BAPEDAL, judicious use of technical assistance, and keen cultural and political sensitivities made a difference. But equally clear, the leadership, ownership, commitment, and creativity of senior officials within BAPEDAL made PROKASIH and PROPER successful. This leadership factor was seen when one of Indonesia's neighbors unsuccessfully attempted to model an environmental rating program on PROPER. Without strong commitment—leadership was vested with a consultant in the donor community—environmental agency senior officials never felt program ownership, which translated into weak implementation.

Source: Prepared by Jeffrey Vincent based on Afshah, S. and Vincent, J.R. 1997. "Putting Pressure on Polluters: Indonesia's PROPER Program," Harvard Institute for International Development, Cambridge, MA.

Box 4.3
Involving Key Stakeholders in Policy Dialogue:
The Case of USAID Indonesian Natural Resources Project

Adopting a multi-stakeholder policy process may be the most fundamental requirement to achieving sound policy decisions. Further decisions located at the right scale and jurisdictional level ensure relevant information on environmental problems and policy consequences, and incentives for encouraging appropriate behaviors. Multi-stakeholder processes also enable other considerations—such as the distribution of policy benefits and costs—to be better factored into decision making.

During implementation of the Indonesian Natural Resources Management Project (NRMP), a number of lessons were learned concerning the concept of participation in the policy process. However, a poor understanding exists as to what public involvement and participation actually entail. For most practitioners, participation means some form of consultation. But the real benefits of participation come from power sharing. A truly participatory process includes the authority to make decisions and take responsibility for the consequences of decisions. Unless direct stakeholders have decision-making authority, participation is illusory and participants only weakly appreciate the implications of policy change.

NRMP's work on improved park management and its attempts to develop broader policy processes in the forestry sector confirm the need to establish who the real stakeholders are in any policy process. For example, community meetings on alternative park management strategies created a vehicle for consultation. Those who came were prepared to listen. However, poachers or illegal loggers whose behavior needed changing did not take part in such meetings. The real stakeholders—those most affected by or affecting policy outcomes—must become involved. Depending on institutional arrangements in a particular location, an entire village community may not even be equivalent to a stakeholder group.

In natural resources policy processes, the sectoral nature of government administration complicates the process of engaging the full range of stakeholders. To be effective, policies must consider the range of incentives created across sectors and agencies; without strong cross-organizational dialogues, policy outcomes will remain unpredictable.

After starting with a top-down, weak forestry policy analysis and dialogue process, NRMP changed its approach by forming small policy groups within the Forestry Ministry to address sensitive policy issues. Attention to the interests of the key sectoral agency led to a far greater sense of ownership, and policy measures were consequently passed and implemented.

NRMP also helped develop the Indonesian Regional Science Association, where institutional interests could be put aside to deliberate objectively policy options and consequences. This professional association allowed for new collaborative policy dialogue on a range of issues associated with decentralization of authority for natural resources management. Such fora are increasingly needed in Indonesia, where current trends aim to decentralize authority to the provincial level. To help avoid the risk of the national policy errors being repeated at lower levels of governance, policy dialogue must transfer lessons learned from the national experience to all key stakeholders.

Source: Prepared by David McCauley based on BAPPENAS (1997). *Multi-stakeholder Resource Management: Reflections on Lessons Learned from the Indonesian Natural Resources Management Project* (draft).

Box 4.4

The Importance of Building a Consensus for Policy Change—The Case of Ecuador's Agrarian Development Law of 1994

In recent years, the shortcomings of group tenure arrangements have come under increased scrutiny in Latin America. A bewildering array of laws and regulations have prevented *comunas* and *ejidos* from dividing assets among members and engaging in normal real estate transactions. Since communal land could not be bought or sold, and, therefore, could never be used as collateral for a loan, access to formal financial markets was precluded as well.

Following Mexico's lead, and heeding the advice of international consultants, the Ecuadorian government made major changes in communal property arrangements in 1994. Those changes were incorporated in the *Ley de Desarrollo Agrario* (Agrarian Development Law), which the national legislature adopted in April.

As has been the case throughout Latin America, policy making in Ecuador has not been characterized by heavy consultation with stakeholders. Consideration of the new law had not been exceptional in this regard. In particular, leaders of indigenous groups, which have become quite well-organized, argued that their voices had not been heard. They responded by organizing a national strike in the middle of the year, which brought normal business to a stand-still for several days.

Ecuador's head of state, Sixto Durán-Ballén, decided that the best course of action was to suspend the law pending review by a special presidential commission. The commission, which included indigenous leaders, promptly engaged in the sort of discussion that should have preceded passage of the original law. In late 1994, the original law, including the right to create private parcels out of communal holdings, was largely intact. What once was regarded as a radical policy change was now accepted virtually without dissent because all affected parties had been included in policy discussions.

Source: Douglas Southgate, C. Camacho-Saá, and J. Strasma. 1997. "La Articulación de la Propiedad Privada en el Ecuador Rural" in M. Whitaker (ed.), *Evaluación de las Reformas a las Políticas Agrícolas en el Ecuador*. Quito: Instituto de Estrategias Agropecuarias.

Box 4.5**Being Prepared To Face Down the Opposition—Air Pollution Control in Quito, Ecuador**

Air quality is poor in most large urban areas in the developing world, and Ecuador's national capital is no exception. Quito has more than 600 factories and other fixed sources of pollution, and the number of cars, trucks, and buses circulating in the city has burgeoned in recent years. Atmospheric concentrations of suspended particulates, lead, and other pollutants exceed international standards, in some cases by a wide margin.

The municipal government, in pursuing several clean-air initiatives, is paying special attention, not only to industrial establishments, but also to diesel-burning vehicles. Teams comprising policemen and technicians from Quito's environment department patrol major thoroughfares and detain buses and trucks that emit too much smoke. The owner of any vehicle found to be in violation must pay a fine, equal to about \$150, and post a bond of three times the fine. The bond is returned after the vehicle is brought into compliance, almost always with a proper tune-up. In early 1996, Quito's mayor announced that emissions controls would be complemented by purchasing all buses and trucks more than 25 years old (for \$2,700 to \$4,000 each) and retiring them permanently from circulation.

Although well-received by the general public, bus and truck owners have been sharply critical of these means. In March 1996, they organized a strike and used their vehicles to block Quito's major intersections and all roads and highways leading into the city.

In the past, action of this sort, which paralyzes commerce and all other activity, has caused government leaders to accommodate strikers' demands. But, this time, the mayor held firm. Just a few hours after they had been put in place, blockades were removed, and traffic quickly returned to normal.

The mayor's political fortunes benefited enormously from this incident; he ran for reelection largely on the basis of his environmental accomplishments and captured three-fifths of the vote. His victory shows a substantial electoral premium for those who deliver on promises to raise air and water quality—and who are willing to take on special interests in order to deliver on those promises.

Source: Prepared by Douglas Southgate based on conversations with Jorge Jurado, Director de Medio Ambiente, Municipio Metropolitano de Quito, March and July 1996.

Box 4.6: Lessons Learned from Energy Efficiency Projects in Eastern and Central Europe, Kazakhstan and Kyrgyzstan

In 1991, under the Emergency Energy Program for Eastern and Central Europe, USAID embarked on a series of energy efficiency initiatives in Poland, Hungary, Bulgaria, Romania, and Czechoslovakia. In each country, six to eight industrial and large commercial facilities conducted energy-efficiency audits and made recommendations on “low cost, no cost” options. Then, with a budget of roughly \$40,000 per plant to procure equipment and work with local counterparts, equipment was installed, and results were measured. The program aimed to: (1) *demonstrate the cost effectiveness* of energy efficiency programs to serve as a catalyst for further investments; (2) build a host-country constituency for the programs; (3) teach host-country nationals how to calculate the pay back period and the internal rate of return; and (4) open up market opportunities for US firms selling energy efficiency services.

Following the breakup of the USSR, under the Emergency Energy Program for the NIS, similar programs were implemented in Central Asia, the Caucasus, and Russia. Most overwhelmingly demonstrated the economic benefits of energy efficiency in large-scale industrial and commercial enterprises. For example, the simple installation of meters on boilers led to reductions in coal consumption of 20 to 40 percent, and the installation of steam traps, the use of infrared cameras to zero in on heat losses, and other measures had fantastic returns and payback periods of one to three months.

These USAID-sponsored activities also served as catalysts for the creation of local stakeholders firmly behind these programs. In Kazakhstan and Kyrgyzstan, the enthusiasm generated was so intense that plant managers embarked on their own energy audits and helped sponsor forums for other plant managers about the benefits of energy efficiency audits and ongoing programs. In Almaty and Bishkek, more than 200 plant managers in each country attended these training forums.

Despite the success of these projects in demonstrating the efficacy of energy efficiency and in building local stakeholder support, the programs lacked staying power because a host of problems were overlooked at the project design state.

After USAID funding ended, the highly subsidized nature of energy prices in all the countries offered minimal incentive for factory managers to make large capital investments. Almost unbelievably, when USAID-financed consultants first went into Kazakhstan, the cost of a barrel of oil used in district heating plants and large industrial enterprises was less than \$.01. Two US firms—Johnson Controls and Honeywell—participated in the demonstration seminars in Bishkek and Almaty, and proposed sizeable projects where the host country would invest no up-front capital but would pay the American companies based on the savings obtained by their investments. However, the offer was rejected; because of the enormous subsidies for the fuel, the economics of the program simply did not work.

In other countries, following successes of the USAID program, some national governments wanted to make their own investments. However, no financing mechanisms were available either in country or from outside sources, providing almost a textbook example that policy dialogue must change and stay the course as requirements change.

Sometimes, USAID's need to lend to countries, rather than institutions or individuals, actually worked against local entrepreneurs who were already in the energy-efficiency business. In Bulgaria, for example, a local businessman who had a small energy efficiency auditing business played an instrumental role as a local partner, and worked with USAID-funded consultants in conducting eight industrial and large commercial energy audits. Using USAID-provided equipment, this local company improved its skills and capacities and made the program a great success in building a local stakeholder constituency. However, upon program conclusion, USAID was forced

Box 4.6**Lessons Learned from Energy Efficiency Projects in Eastern and Central Europe,
Kazakstan and Kyrgyzstan (*continued*)**

In the rush to demonstrate the efficacy of energy efficiency for these formerly socialist economies, USAID often failed to analyze whether the industrial enterprises receiving assistance were strong enough to survive the wrenching economic changes sweeping their economies. Consequently, a number of plants that received assistance in Eastern and Central Europe subsequently went bankrupt, leaving the benefits of low cost, no cost energy programs of little or no value. The lesson learned here is that "energy efficiency is not an absolute value in and of itself, but is only as good as the total context in which the investment is made."

Source: Prepared by Jeffrey Vincent.

Lesson 5:

Donor Coordination Is Crucial for Consistent and Effective Policies to Emerge from The Dialogue

What Has Been Learned

Donor-sponsored environmental policy interventions can result in parallel activities built on differing assumptions, goals, and approaches, since projects are often developed through bilateral dialogue. Policy initiatives, by their very nature, must send *consistent* signals that *systematically* influence local decision making and incentives, and multilateral policy dialogue requires greater donor coordination than do other types of assistance activities.

Key Underlying Issues

National versus Donor Strategies. Since local leadership and champions are essential for successful policy work, donors must coalesce around a single national strategy, rather than having line ministries buy into isolated donor agendas. Yet the policy and organizational imperatives of donor agencies often make such an approach difficult. First, a donor's *willingness* to fund policy change may be tied to the adoption of specific reforms—limiting openness and national leadership. Second, because each donor can have a different vision of appropriate policy direction, donors frequently exert competing pressures on host-country policy makers. In Nepal during the late 1980s, a European-funded forestry master plan initially promoted institutional strengthening of the inefficient timber and fuelwood corporations, while USAID policy dialogue with the Government of Nepal focused on abolition of both parastatals as part of a broader market deregulation. The in-country presence of highly motivated individuals representing the different donors facilitated communications and coordinated policy approaches. This caliber of donor representation is the exception, however, rather than the rule.

Donors often worked in seclusion, with no single point of contact in the government. For funding, they might work with Ministry of Economic Affairs. For technical matters, with Ministry of Water and Power, or directly with the utility, etc. This tended to undercut cross-sector learning and the coordination of policy for the host country, with the donor becoming the policy player, and government ministries simply becoming constituencies. Not a viable policy formula.

*Interview with Daud Beg
Former Assistant Secretary
Ministry of Water and Power
Government of Pakistan*

Cross-Sectoral Consistency. The need for donor coordination is further heightened by the importance of *policy consistency* across sectors. For reasons of efficiency and national priorities, donor agencies sometimes allocate priority sectors among themselves, with one taking the lead in health, another in environment, and so on. However, policy measures across all sectors must be linked by the underlying principles on which the policies are based. For example, market-based approaches for private enterprise development are undercut if the government simultaneously resorts to price controls or rationing in the energy or water sectors.

Proactive Donor Coordination. Major policy change in any sector (including environment) often coincides with broader policy and institutional changes across sectors and involves multiple donors. In such circumstances, donor coordination creates opportunities for more deep-seated and lasting policy reform. In Mali in the 1980s, representatives of the World Bank, France and the US worked closely together over three years to help the Government of Mali develop major agricultural reforms, phasing out crop marketing boards, providing transitional commodity price supports, and taking associated steps to increase food security. Without proactive donor coordination, no single donor could have engaged the government in a dialogue about the full set of changes needed to make reform workable; without proactive donor coordination, the Government of Mali also would have been hard pressed to identify and analyze the linked reforms needed to make policy change successful. Boxes 5.1 and 5.2 demonstrate how donor coordination has advanced policy dialogue and achieved concrete and holistic results unobtainable through individual donor efforts.

Breaking Bad Habits. Both donors and host governments have well-established habits that undercut donor coordination. For donors, longstanding project-driven habits have seriously downplayed collaborative relationships with other donors, and governments sometimes prefer to deal with each donor separately. Nevertheless, a number of important changes in the last five to ten years have increased the prospects for effective donor coordination as part of the policy dialogue process:

- # the structural adjustment process—driven by fiscal and economic crisis in host countries—places a greater premium on program and project consistency;
- # tight donor budgets have forced many donors to tie program pieces to a coordinated whole funded by multiple organizations;
- # the increased results orientation of donor programs—part of the reengineering process in USAID, but also present in virtually all other donor programs—forces explicit consideration of who else is doing what; and
- # the increasing emphasis on policy change—of getting the basics in order—has itself improved dialogue among donors and with host governments.

Programmatic Implications

1. Explicitly include other donor programs in Results Frameworks for environmental policy actions.
2. Establish long-term mechanisms for donor coordination and include donor coordination as an explicit element of design and implementation efforts.
3. Make knowledge of relevant programs by other donors and working relationships with other donor representatives a formal part of USAID staff and contractors' responsibilities.

Box 5.1
Donor Coordination in the Clean Rivers Program in Indonesia

In the late 1980s, the Indonesian Ministry of Population and Environment realized that water pollution problems were becoming horrendous in many heavily developed river basins of the country—particularly on the densely populated island of Java. A Clean Rivers or PROKASIH program was devised to draw public attention to the problem and target industrial polluters. Initially, the Environment Minister made highly publicized trips to particularly dirty spots along the river bank or took boat trips along polluted river stretches. The program quickly became more formalized and established PROKASIH teams in eight provinces. The teams selected the river stretches deserving greatest attention as well as the specific factories deemed to be the largest contributors to water pollution. Provincial teams also began monitoring river pollution levels and drawing up pollution-reduction agreements with industries to encourage them to find ways voluntarily to cut their effluents.

The Ministry formed a new Environmental Impact Management Agency (BAPEDAL) in 1990 as its operational arm, and PROKASIH was a flagship program. All major international donor agencies were invited to a series of retreats to discuss the program's directions with senior officials and encouraged to choose a river basin which they could help to clean up. Though the consultative process was clearly aimed at increasing financial resources for the program, most donors found that the approach—which also included a comprehensive matrix showing how each donor was contributing—improved their understanding of national environmental priorities and aided their programming. A substantial increase in funding greatly enhanced the credibility of the new BAPEDAL agency, and PROKASIH succeeded. A World Bank review of PROKASIH in 1994 found that the BOD load discharged by participating industries across 24 river basins had fallen by 59 percent.

Source: Prepared by David McCauley.

Box 5.2
Donor Coordination in Central and Eastern Europe (CEE)

Cooperation and coordination among USAID and other donors avoids duplication of effort and ensures that local policy makers need not endure competing or contradictory advising services, which may tend to decrease confidence in the benefit of outside advisors.

Between 1993 and 1997, the Central and Eastern Europe Environmental Economics and Policy (C4EP) project in Poland worked collaboratively with several international donor organizations that provided assistance to Poland during its period of economic transition. C4EP is a cooperative agreement between USAID and the Harvard Institute for International Development.

C4EP also worked with the EU PHARE program, providing environmental policy advice to the Polish Ministry of Environmental Protection, Natural Resources and Forestry. In the Opole region, C4EP environmental economists served on the steering committee for a PHARE tradeable permits pilot project for air emissions. This additional economics expertise and specialized knowledge of tradeable permits aided project design and final review of the analytical work.

A coordinated effort to support national and regional environmental funds in Poland included design of operating procedures that incorporated cost-effectiveness principles, environmental priorities, and transparent project selection. Efforts aimed to foster the discipline and decision-making skills necessary for the emergence of private capital markets, while also financing interim environmental investments. The OECD Environment Directorate, Non-Members Country Branch, well-positioned to host international conferences, has brought together donor organizations with CEE and NIS countries to strengthen environmental funds. C4EP, by participation in the OECD regional network, has disseminated information from its in-country advising experiences in CEE and NIS. Now, many of the more developed CEE funds are teaming directly with newer CEE funds to offer technical assistance in priority areas identified through the network.

The dynamic benefit of coordination appears not only between USAID and other donors, but also among USAID program implementors. For example, in Poland, the USAID C4EP and Environmental Action Program Support (EAPS) projects worked jointly on two aspects of environmental finance: policy development and project packaging. This collaboration's success was highlighted in a recent USAID review of the EAPS project. An Environmental Financing Sourcebook for Polish industry and municipalities seeking financing for environmental projects was prepared. The book provides detailed information on a variety of funding sources, including project selection criteria and funding levels. Praised as the first compendium of its kind, the publication was made available for wide distribution in Poland.

Source: Prepared by Theo Panayotou.

Lesson 6:

Policy Change Occurs in a Wide Variety of Settings, and Dialogue Must Engage Both Local and National Actors

What Has Been Learned

Policy advisors need to approach the policy development process in various settings with diverse parties, not only in formal meetings with senior government policy makers. Advisors should seize opportunities to work one-on-one or in small groups with a variety of individuals and organizations that could influence the policy process, including private sector representatives, local think tanks, and NGOs. A country's policy formulation processes can be difficult to understand and to influence, and foreign advisors working on short-term assignments are particularly likely to be at a disadvantage. Therefore, advisors must draw on local institutional capacity to carry out policy analysis, to disseminate findings, and to assist in policy implementation.

Key Underlying Issues

Understanding the Local Political Process. Diverse factors drive the political process, particularly in many developing and transitional economies—government platforms, private sector interests, specific political agendas, and grassroots concerns. For this reason, an advisor should reach out to many different groups and to seek a variety of opportunities to inform and advise on policy issues. The potential for turnover in political power makes it prudent to foster diverse support for policy change. Many of the countries where USAID and other development agencies are active are large, resourceful, and nationalistic. Virtually any advice that an outsider might offer can be—and usually has been—obtained from a domestic source. Also, complex local policy-making processes make it difficult for an outsider, especially a short-termers, to determine who is making decisions and how. Furthermore, the resources that foreign development agencies offer are small relative to total capital flows; accordingly, host-country governments could regard them as inconsequential.

Informal Information Exchange. In addition to customary channels of accessing government officials, other avenues of policy dialogue have had great impact. Round table discussions that bring together officials from various government ministries can effectively build consensus on the elements of a legislative proposal before the laws are drafted. This technique was effective for development of the Romania water law in 1996. Exchange programs among countries have had great success as policy makers can view a proposed policy in action. In recent years, several forestry exchange programs, involving India, China, and Nepal, and Kenya, and other countries, resulted in increased policy dialogue and publications that also influenced policy makers in other countries.

Role of the Private Sector. In most countries, the private sector plays a vital role in informing and influencing policy dialogue, often through trade organizations. They can influence governments to adopt flexible and cost-saving environmental policies, rather than relying solely on command-and-control approaches. Also, under democratic governments, elected representatives often join with industries in their area to support sound policies that have economic benefits. Private sector groups

should be encouraged to participate in the policy dialogue and, in some cases, may be candidates for co-sponsorship of policy analysis and action. These groups can be accessed in formal settings, such as trade conferences, but also through informal channels such as newsletters and small group meetings.

Utilizing Local Institutions. Cooperation of local universities and other policy analysis institutions can benefit any policy advising program. This interaction often takes place through informal brainstorming sessions; for example, a classroom can become an informal forum for policy dialogue when a training course involves various players in the policy process. The academic setting can provide a less intimidating and more open environment for the exchange of ideas, as evidenced by a newly developed postgraduate course in environmental economics at Warsaw University. It brings together professionals from the national environmental funds and Ministry of Environmental Protection, Natural Resources, and Forestry, among others.

Innovation in Community Involvement. Local communities and NGOs can contribute greatly to policy dialogue, and the work it takes to design innovative ways of involving the public is well worth the effort. In Tanzania, a community forestry project provided training in making and editing videos. One community recorded their resource management strategies on video, then shared their knowledge with other communities of Massai people, who are largely illiterate. In Mali, a festival organized for the local community and foresters resulted in improved communication between the two groups, allowing foresters to understand and better respond to the local situation. Involving stakeholders in policy dialogue increases the likelihood that the adopted policy will be effective and lasting (see Box 6.1).

Using Local Expertise and Institutions. Local institutions can exercise substantial policy influence. Where those institutions are weak, the task of strengthening them must be faced. As a rule, several years of support, consisting of training, technical assistance, and financing are required. Once established, local institutions can be highly effective agents of policy change. For example, national institutions with established credibility can carry out studies that bear on policy issues, and policy makers and key stakeholders will trust their findings. In Belém, Brazil, the *Instituto do Homem e Meio Ambiente da Amazonia* (Institute for Man and the Environment of the Amazon—IMAZON), has carried out high-quality research for a number of years and provided technical assistance to the wood products industry. The Institute has acquired a solid local and national reputation, and the World Bank has found it advantageous to cooperate with IMAZON on policy initiatives of mutual interest (Box 6.2).

Programmatic Implications

1. Policy advisors should interact with a broad range of players in the policy dialogue process.
2. Appropriate structures are required for different political and economic environments, but policy advisors should be flexible enough to work with different groups and policy dialogue situations.
3. Advisors should both create and seek opportunities to stimulate policy dialogue in a variety of settings.
4. Where local institutional capacity for policy analysis and dialogue does not exist, it needs to be developed.
5. Where local capacity is available, it should be fully utilized.

Box 6.1: Forest Policy Dialogue in a Variety of Forms and Settings

Building mutual understanding of terms and concepts, strengthening communications and basing options on adequate information are crucial to policy dialogue. A variety of creative examples appear in a number of countries at both formal and informal levels.

In 1986, the United Nations Food and Agriculture Organization (FAO) funded an India–China exchange of forestry policy makers to explore one another's community forestry efforts. With previous exchanges between these two neighbors almost non-existent, this relatively new area for policy dialogue generated numerous articles by the internationally recognized participants. Some of these documents reached policy makers in other countries, and participants reported that the experience raised the level and quality of professional dialogue and widely validated the importance of the topic.

In 1994, East African professional community forestry workers, horrified by the strong-arm tactics used to remove residents from recently expanded parks and reserves, designed an exchange. Having been in the Forests, Trees and People Programme (FTPP) network and aware of people involved in Indian Joint Forest Management, they used their budget and contacts to take policy makers from their countries to India. Later the Kenyans also visited Nepal projects. According to East African FFTP reports, this experience opened both national and regional dialogue on the topic and stimulated local forest management efforts in Tanzania, Uganda, and Kenya.

Nepal offers an example of opening dialogue between community representatives and local foresters. The Government of Nepal representative on the evaluation team of a community forestry project concluded that perhaps the most important activity had been a small component of community visits. Teams, made up of local forestry officers and village leaders, traveled, ate, and studied activities in other villages together for several days. One village leader remarked that he had never seen the forester before and had been afraid to enter the office. Now he would know to whom to go for help in getting the community forest land registered, and the foresters would now understand their problems better.

A similar experience was organized in Mali where local communities reported feeling afraid of both foresters and of being in the forests. The Government of Mali organized a festival in the forest with food, games, and entertainment. After several such events, villagers reported that they very much enjoyed getting to know the foresters and forestry officers reported it was thereafter much easier to learn about the local situation and collaborate with villagers.

Obtaining adequate understanding of local situations to initiate effective policy dialogue requires particular effort. In Laos, an FAO policy support team, concerned over suggested policies on immediate settling of shifting cultivators, funded a Rapid Rural Appraisal (RRA). Policy makers on the team went to the communities to see field realities first hand before writing policy. In developing tools for gender analysis in Asia, high-level forestry officials were hired as forestry technical advisors. The teams reported that having these officials involved in analyzing the information created positive support at policy level for future gender-sensitive activities.

From Tanzania comes another example of supporting policy makers with relevant information on local situations and perceptions. Since the Massai people are largely illiterate, they needed a tool other than the written word with which to communicate with policy makers. A community forestry project taught the participants how to make and edit their own videos, and one Massai community decided to record its resource management strategies. On the day scheduled for video making, the community was confronted with a new document describing policy changes regarding land ownership. The Massai neither understood the document nor felt it upheld their interests; they expressed this to policy makers through the video. While misunderstandings existed on both sides of the issue, the video helped the Massai present their perceptions to the government to create a more equitable dialogue.

Box 6.1: Forest Policy Dialogue in a Variety of Forms and Settings (continued)

Relevant data is often missing when designing or carrying out policies. The International Forestry Resources and Institutions (IFRI) network (based at Indiana University and supported by Ford Foundation, FAO, and a number of prestigious institutions) has linked technical plot and species information with the social, historical, economic, and governance context. This relational data base has been used in Uganda as an early warning system of changing forest quality and quantity. Because of the complexity of forest use, IFRI offers policy makers data on resource status and information to help understand causes and potential solutions to problems. In Nepal, IFRI helped officials monitor how a new type of project affected both participants and non-participants. In Bolivia, community members and professionals work together using IFRI to organize and analyze information, both historic and current, on forest products and local rules of use. The participating communities and the foresters count on the resultant documents to help implement the new laws of land adjudication.

Source: Prepared by Marilyn Hoskins.

Box 6.2**The Importance of Local Institutions: The Case of IMAZON**

The *Instituto do Homem e Meio Ambiente da Amazonia* (Institute for Man and the Environment of the Amazon–IMAZON), which is based Belém, Brazil, offers an excellent example of the contribution that local institutional development makes to environmental policy reform.

Over the years, IMAZON has received support from USAID, various other donor agencies, and private foundations. The Institute has acquired a solid reputation for research in a number of fields, including the recovery of deforested lands and other disturbed environments as well as the microeconomics of logging, ranching, and other activities in the eastern Amazon. This success has much to do with the efforts of Christopher Uhl, an ecology professor at Pennsylvania State University, who worked at IMAZON for several years beginning in the late 1980s. He has mentored more than a dozen young staff members, most of whom have completed post-graduate studies in the US.

IMAZON does not confine itself to research. As a result of field studies, staff members have gained credibility with the private sector, local government, and other key actors in the eastern Amazon. In addition to being disseminated in scholarly journals, findings form the basis for local technical assistance initiatives. For example, IMAZON personnel work with loggers to diminish the resource waste and adverse environmental impacts that can result from timber harvesting.

The Belém-based NGO has begun to have an impact on policy formulation. With a contract from Pilot Project to Save the Brazilian Rainforest (administered by the World Bank and funded by the G7 industrial nations to assess forestry activity in all parts of the Brazilian Amazon), the Institute completed the first comprehensive view of the wood products industry throughout the entire region. IMAZON also has prepared a short document—in cooperation with the Ministry of the Environment, the national Congress's environmental committee, and other agencies—in which anticipated courses of development in the Brazilian Amazon are plotted out for various policy scenarios, including the current policy vacuum.

Source: Conversation with Robert Schneider, World Bank, Brasilia, June 1996.

3. The Process of Policy Dialogue

Lesson 7:

Policy Dialogue Is Not a “One-shot Event” But a Continuing Process

What Has Been Learned

Policy reform, an evolving, multistage process, requires patience and perseverance. Once the most obvious obstacle to efficient resource use or better environmental management is removed, other constraints appear. Unless policy dialogue continues to address emerging problems along the reform process, disappointment and frustration at the lack of results could reverse gains. Further, obtaining results quickly does not ensure sustainability. At the same time, absence of policy change, despite sustained policy dialogue, does not necessarily equate to failure. Policy dialogue is a catalytic process of changing mindsets, and what appears as inaction might actually be a slow change of attitudes and perceptions that will later manifest in policy change and reform. Only by sustained engagement in policy dialogue can the undercurrents of change be detected and translated into action.

Key Underlying Issues

Consensus Building in the Policy Process. Policy dialogue must include stakeholders and decision makers in consensus-building exchange to determine achievable policy options, appropriate time frames, the players, and likely effects. Effective policy formalizes a social and political consensus to systematically influence day-to-day choices of individuals, households, enterprises, or communities. This requires an understanding of incentives, constraints and technical relationships. In addition, effective policy depends on enforcement mechanisms, including markets, regulatory systems, informal social enforcement and democratic/judicial processes. When governments view policy as a simple legislative decree independent of a broader context, they often limit policy dialogue to only a few players. Such efforts typically fail to achieve the desired impact.

Stakeholders’ Micro Decision-Making Processes. Environmental policy outcomes depend on the decision-making processes and resultant activities of stakeholders who face pressing production and consumption choices in which environmental considerations may play little part. At the micro level, people and enterprises face choices determined by diverse factors such as tradition, knowledge of alternatives, prices, resources, risk management and technology availability. Policy change must succeed in altering the mix of choices and incentives for recurrent and widespread behavior change to result.

Web of Relationships. Policy dialogue usually takes place for a specific purpose in the context of a specific issue or project (e.g., water supply, garbage collection, environmental liabilities arising from privatization, etc.). However, the policy dialogue context is usually much broader, encompassing legal and institutional factors beyond the confines of the narrowly defined issue at hand. While shortcut solutions can help to avoid larger systemic problems affecting the current issue, policy dialogue has

its greatest potential for sustainable impacts when it systematically addresses the broader underlying causes of environmental problems. For example, environmentally related financial liabilities in transitional economies such as Hungary, Romania, and Poland have been dealt with in the short term through indemnification of investors, or enterprise discounts. However, policy dialogue continued at a higher level to introduce liability legislation, environmental assessment requirements, escrow accounts, and even reform of the privatization laws.

Long-term Engagement. Policy dialogue must continue during the implementation phase to address emerging issues unforeseen at the design stage and to lend credibility to the dialogue process. USAID long-term resident policy advisors in Eastern Europe and the former Soviet Union engaged in policy dialogues with local counterparts that extended from issues identification through legislation drafting and instrument design to implementation where sustained engagement through implementation addressed practical difficulties found in forest auctions in Romania and emissions trading in Almaty, Kazakhstan. This led to critical adjustments that increased the effectiveness of the policy changes and established credibility that helped gain legal support for engagement in larger issues. The need for sustained engagement is also demonstrated by the case of garbage collection in Machala, Ecuador. The solution of the technical issues of garbage collection in crowded slums brought out more formidable legal and institutional impediments, and resulting reform in turn required more than one legislative act. Only by sustained policy dialogue of USAID, *Gesellschaft für Technische Zusammenarbeit GmbH* (GTZ), and other parties with local groups were a series of constraints—many of them unforeseen—removed and solid waste collection improved (Box 7.1)

One Step at a Time. When working in developing and transition economies, USAID should carefully evaluate the political and environmental conditions before introducing rapid or radical policy changes. Faced with dramatically different or locally inappropriate options, policy makers may dismiss the policy options, and become disinterested in change. Longstanding political and cultural traditions naturally have an impact on government receptiveness to new policy proposals. Outside advisors, although prepared and well-intended, cannot always assess all of these circumstances. Teaming with qualified local professionals can certainly help this situation, but proposing radical policy changes too early may be perceived by counterparts as a lack of understanding of local conditions. Thus, approaching policy dialogue in “bite-sized” pieces usually proves more successful. The “jump-right-in” approach has a track record of failure, as exhibited by the C4EP project in the Czech Republic (Box 7.2).

Awareness and Communications. Even when policies are based on sound approaches, final impact depends on viable mechanisms for policy implementation—institutional capacity; the maturity of civil society organizations; the legitimacy of political, judicial, and administrative systems; and enforcement capacity. A broad range of stakeholders can be both directly and indirectly influenced by changes and must be both educated and engaged. This multi-step, iterative process yields a workable social accommodation. While brief engagement without continuity wastes effort, sustained policy dialogue does not assure success, nor does the lack of concrete policy change indicate failure. Sustained policy dialogue that occurs at the wrong level, is not based on solid analytics and good science, does not involve the shareholders, or ignores local conditions, will most likely fail. On the other hand, sustained policy dialogue based on solid principles of analysis and engagement, even when it does not result in policy change, attains success when it catalyzes shifts in attitudes, builds capacity, and generates demand for policy reform. A good example is USAID’s Natural Resources and

Environmental Management for Sustainability (MANRES) project in Thailand, which began producing dramatic policy changes after it was essentially concluded. Indeed, much of the MANRES success built on USAID work and institutions that had been part of the Agency's continued policy dialogue since the 1950s (Box 7.3).

Programmatic Implications

1. Policy programs must allow sufficient time for key constituencies to become involved, to evaluate options and to become participants who feel they have been bought into the dialogue. While this may complicate policy dialogue, it is necessary for sustainability.
2. Policy advisory programs should recognize the need for a step-wise approach to policy dialogue and design their activities accordingly. A process based on education, analysis, discussion of options, and involvement of relevant parties should be designed at the outset. By contrast plans for rapid and radical policy change are often unrealistic. While the short-term results of a step-wise approach may be limited, the long-term impact is likely to be far greater. Alternative policy proposals will be more widely accepted if built on a firm foundation of policy dialogue.
3. The capacity for sustained policy dialogue must be built into technical assistance programs to: (a) increase effectiveness; (b) ensure sustainability; (c) elevate the dialogue through increased credibility. Policy dialogue must cover all stages from issue identification through policy design to implementation and evaluation.

Box 7.1 Improved Garbage Collection in Machala, Ecuador

Deficient solid waste services, a major concern throughout the developing world, usually have been provided by unionized municipal agencies that do not collect, transport, or bury garbage very efficiently. Slum-dwellers often shoulder the burden of inefficiency in the form of uncollected trash left to accumulate in streets and vacant lots.

Along with the German GTZ, USAID has supported the improvement of solid waste services in Machala, Ecuador, a port city with a population of approximately 200,000. Technically, initiating reliable garbage collection in slum neighborhoods, where half the municipal population resides, was simple. Working with local people, GTZ and USAID advisors quickly determined that large tricycles equipped with a 1-m³ box could circulate easily in areas that are impassable for motorized vehicles.

In contrast, it has taken much more effort to overcome the legal and institutional impediments to better trash collection. In 1993, Machala's city council founded an autonomous municipal solid waste enterprise which, many hoped, could contract immediately with private service providers. However, more than a year was to pass before it became clear that the best way to proceed was to establish a community-based micro enterprise holding a single-service contract. Not until 1996 was the micro enterprise fully operational, with approvals from several governmental agencies and a bank loan to finance equipment purchases.

Better environmental services—garbage collection in this case—always demand more than a technical solution. Institutional reform, essential for lasting environmental improvement, involves much more than a single legislative act. Had USAID, GTZ, and other interested parties failed to work with local counterparts to resolve all impediments to reform as they arose (many of them unexpectedly), garbage would still be piling up in Machala's slums.

Source: Stern, J., D. Southgate, and J. Strasma. in press. "Improving Garbage Collection in Latin America's Slums: Some Lessons from Machala, Ecuador" *Resources, Conservation and Recycling*.

Box 7.2

A Bite-Sized Approach to Tradeable Permits in the Czech Republic

Over a three-year period between 1994 and 1997, the Central and Eastern Europe Environmental Economics and Policy (C4EP) project, implemented through a cooperative agreement between USAID and the Harvard Institute for International Development, worked with the Ministry of Environment of the Czech Republic on policy development for air pollution control. Initially, C4EP analyzed various policy options for air pollution control, based on interviews with policy makers and analysis of available air emissions data. A report was prepared which outlined the pros and cons of various options, including revisions to the charge system, trading of pollution permits, and full-cost pricing of energy and energy inputs. While reaction to the report was positive, some policy makers hesitated to adopt the recommendations, despite the projected positive economic benefits.

Undoubtedly a multitude of reasons caused the hesitancy; however, some options represented radically different policy approaches for the Czech Republic. For example, full-cost pricing of energy and energy inputs, although efficient from an economic standpoint, radically, and hence controversially, departed from historically subsidized energy prices. A program of tradeable air pollution emissions permits relied on the creation of a well-functioning market for the buying and selling of permits, similar to the nascent Prague stock exchange, the success of which was still being evaluated. Other potential programs required legislative changes.

Seeing some of these road blocks, C4EP adopted a step-by-step approach. For the option of tradeable emissions permits, C4EP and the Ministry established a pilot project that simulated trading in a particular area of the Czech Republic. Through computer modeling of trades using actual cost data from 30 facilities, the project demonstrated two key points: first, that a small-scale market for trading could be established by natural supply and demand among the facilities; and, second, that cost savings of at least 15 percent could be realized through trading as an alternative to all facilities meeting a specific emissions standard.

In addition to the pilot project, C4EP cooperated with the US Energy Association (USEA) which, through a USAID project, sponsored a study group from the Czech Republic to observe US trading programs. Czech experts also attended USAID regional conferences on tradeable permits sponsored by C4EP and USEA, all of which helped to contribute to an understanding of these programs.

Recently, the Ministry has expressed a willingness to consider within-firm trading, an initial step toward possible trading on a large scale in the future. The inclusion of language allowing for tradeable permits in new air legislation being prepared for 1998 is also being considered.

Source: Prepared by Theo Panayotou.

Box 7.3**Building on Sustained Policy Dialogue: The Case of MANRES Project in Thailand**

Hundreds of billions of dollars have been invested in developing countries, over the past 50 years and probably hundreds of thousands of programs and projects have been undertaken with bilateral and multilateral sources of development assistance. Thus, a rich legacy of political, economic, and social development history, whether readily apparent or faint, is part of initial policy dialogue in any country. Those initiating the policy dialogue must discover how past development legacy could influence the dialogue or provide a positive basis for policy dialogue, even in a new development sector.

In the early 1960s, the USAID program in Thailand supported an extensive program in rural and local government and helped establish the District Officer's Training Academy under the local government arm of the Ministry of Interior. Thailand's 70-plus provinces are divided into districts, and district officers are the most important formal point of government contact with local populations. These career civil servants report to the provincial governors, who are appointed by the Ministry to the Interior. Most who observed the USAID/Thailand program, which ran continuously from 1950 to 1995, consider the Academy to be a success story and important contributor to improved local government management. A real bond of professional friendship and goodwill was developed with USAID/Thailand that continued after formal USAID assistance to the Academy was terminated in the early 1970s.

In 1986, as part of the USAID/Thailand middle-income country development strategy, USAID began the design of a comprehensive natural resources and environmental program—USAID's first-ever comprehensive engagement with broad environmental issues in Thailand. This program was launched in late 1987 and was known as MANRES. The MANRES program included elements for policy, awareness and education, human resources development, coastal resources management, industrial environmental management, and rural resources management.

During the MANRES program design, the rural resources management element focused on including, for the first time, a natural resources and environment chapter in the annual development plan that each province develops under the leadership of the Governor. This process is usually managed by the Vice-Governor, and involves the provincial district officers. By 1986, the Thai Government had upgraded the District Officer's Academy into the Local Government Academy with a set of training sessions for Governors and Vice-Governors, as well as a "modern" curriculum for the training of district officers—a core concern.

During one of the MANRES program design sessions at USAID/Thailand, one of the long-term Thai senior staff recalled the important role that the District Officer's Training Academy had played in the success of the local and rural development programs previously supported by USAID/Thailand. He suggested that the Local Government Academy could serve as a direct, immediate way to work with the Governors on the inclusion of the new chapter on natural resources and environment in their annual provincial development plans. Following discussion, the Academy agreed to the suggestion and noted with enthusiasm the re-establishment of its links with USAID/Thailand in a new era as Thailand moved toward middle-income status. The resulting immediate access to the key level of leadership—the governor—boosted the MANRES program and brought modest institutional change sought at the provincial level.

Box 7.3
Building on Sustained Policy Dialogue:
The Case of MANRES Project in Thailand (*continued*)

On a parallel track, and also reflecting the influence of the past, USAID/Thailand included in the MANRES program approximately \$2.0 million of seed funding for a provincial natural resources and environmental management fund—to provide discrete funding for priority activities presented in the provincial development plans in their natural resources and environment chapters. The fund would be replenished annually from Thai Government appropriations. This fund, a basic replication of the fund for decentralized development management that USAID/Thailand supported during the early 1980s, succeeded in directing resources toward decentralizing development and implementation of small-scale rural development activities.

Finally, the Director of the Local Government Academy observed the environmental wisdom of USAID/Thailand in the selection of the site for the District Officer's Academy in the early 1960s in what was then an isolated spot well outside of Bangkok. The area became heavily urbanized except for the marshy areas within the Academy which are important resting places for migrating birds.

Source: Prepared by Douglas Clark

Lesson 8:

Policy Dialogue Requires Flexibility and Thrives on Open and Creative Interaction among Counterparts

What Has Been Learned

Policy dialogue, a dynamic process, requires continuous adjustment and flexibility in light of changing economic, legal, political, and social circumstances. Flexibility in space and time applies both to policy dialogue process and content. The dialogue process can range from the most intense engagement to a virtual halt for reassessment and readjustment. In between, the speed and intensity depend in part on windows of opportunity and emerging constraints. Changing circumstances or its own dynamics also dictate dialogue level. In terms of dialogue content, flexibility is key to: (a) reconciling ambitious environmental objectives with actual practice; (b) adapting general laws and regulations to particular situations; and (c) minimizing the economic, social, and political costs of the policy without compromising its objectives. Open, two-way communications between key players—often advisors and their counterparts—must be maintained to ensure continuous adjustment. Flexibility in the dialogue process may help relieve constraints on the dialogue’s content posed by legal requirements or traditions that must be respected—even as the policy dialogue aims to alter them.

Key Underlying Issues

Adapting Policy Tools. Cost effectiveness and minimal disruption of the development process—both critical to reconciling environmental concerns with economic objectives—require flexible instruments and compliance schedules. Tools and instruments with a track record of success elsewhere cannot be enforced in a different legal and cultural environment without significant tailoring and adjustment. Players must understand how local conditions differ from those of countries where the experience was gained and be willing to adjust in midstream. This challenging task is made more difficult when inexperienced or overly idealistic proponents of a given policy give advice, or advice seekers want immediate policy inputs offer minimal discretion in the face of weak enforcement.

Flexibility in Policy Dialogue. In the US, the Environmental Protection Agency (EPA) sought to have industry find its own cost-minimizing solutions to environmental problems through enforcement discretion. Under which the Agency pledged not to pursue particular violations in facilities in exchange for agreed upon good faith efforts to improve environmental performance. But these experiments were obstructed by inadequate legal authority to offer sufficient protection against specific violations. What initially appeared as a straightforward initiative in the policy dialogue between the regulators and the regulated, called the “Common Sense Initiative” (CSI), became quite complex. The flexibility of the policy dialogue, however, substituted for the inflexibility of the legal system: the practical difficulty of the enforcement discretion approach caused EPA to consider other alternatives, such as expedited rule making, to exempt participating projects from controlling regulatory requirements (Box 8.1). The value of flexibility in policy dialogue to capitalize on new natural resources management opportunities is aptly demonstrated by the dramatic shift of USAID and World Bank assistance to Niger from subsistence production to production for export. (Box 8.2).

Flexibility in Policy Measures Adaptation. The US EPA attempted to transfer environmental compliance schedules to Poland. While these are ideal tools for transitional economies struggling to reconcile a weak environmental protection system to ambitious environmental standards, differences in legal institutions and traditions necessitated significant flexibility to arrive at different solutions to achieve the same goals. A flexible, multi-step policy dialogue resulted in both technical and stakeholder inputs and a flexible partnership (Box 8.3).

Fully Engaging Local Counterparts. Too often, policy “dialogue” has degenerated into an unidirectional flow of prepackaged solutions with little adjustment to local conditions or new information from host-country counterparts. When knowledgeable local analysts, officials, and other stakeholders receive new ideas from policy advisors, practical solutions may emerge for seemingly intractable problems. Failure to foster a genuine policy dialogue from the start turns a living process into a mechanistic one that quickly loses momentum as the interest of local counterparts wanes.

Adapting to the Local Context. Unlike solutions with universal application, policy solutions to environmental management concerns are context-specific. Developed country environmental policies assume enforcement capability, well-functioning court systems, and efficient markets—all tenuous assumptions in developing and transitional economies. Cultural aspects such as a low propensity to litigate, tribal land rights, communal management systems, more tolerance of corruption, etc. necessitate the development of local solutions. Yet, analytical input and international experience filtered through local perspective provide critical elements to forming successful policy instruments and institutions. Donor-agency policies may be flawed or based on erroneous assumptions, but these are more easily remedied in an interactive process than in unidirectional-policy-advice delivery process. Genuine, creative interaction among participants in the policy dialogue process supplies another essential catalyst: ownership of outcomes. Local counterparts and area stakeholders must have a sense of ownership over proposed changes; otherwise, implementation will be problematic and the sustainability of reforms will remain in question.

Creative Interaction. Creative interaction among participants is illustrated by the new water law in Romania. Through a long process of exchange and interaction of US, UK, and French experts with Romanian decision makers and stakeholders, concepts and institutions, such as beneficiary-pays, full-cost pricing, and river basin commissions, were established in Romania to improve water management and increase cost recovery (Box 8.4). In Egypt, Egyptian–American teams collaboratively designed and carried out research to ascertain cost-effective water conservation means. Without a technical approach to on-farm water conservation, which combined US experience with local knowledge of farm practices along the Egyptian Nile, water savings would have been overestimated and proven illusory (Box 8.5).

Programmatic Implications

1. Successful environmental policy dialogue requires a flexible approach to environmental policy instruments and compliance schedules to reconcile ambitious environmental concerns with economic and other realities and development objectives. Likewise, policy dialogue itself requires significant flexibility to effectively transfer policy tools from one context to another.
2. Rapidly changing conditions in developing and transitional economies means that the

effectiveness and sustainability of policy dialogue depends on flexibility in the mode, pace, and dialogue level reflecting circumstances and lessons learned.

3. Flexibility embedded in technical assistance programs, both in process and in content, ensures relevance and effectiveness.
4. USAID policy assistance must ensure that policy dialogue remains a creative, interactive process and does not degenerate into a one-way transfer of prepackaged solutions unfiltered by local perspectives.
5. To ensure a genuine policy dialogue, broad-based support from senior officials must be developed and policy interlocutors must have strong analytical, communications, and interpersonal skills.

Box 8.1**Regulatory Flexibility: Cautionary Lessons from Recent US Experience**

The US is currently engaged in several experiments to examine alternatives to traditional environmental regulatory requirements. Although it is too early to draw final conclusions, a preliminary lesson has emerged that could help in gaging efforts to stimulate environmental experimentation internationally, namely that ignoring or avoiding existing legal requirements is costly in terms of program credibility and may cause significant delays. While existing legal requirements may seem counterproductive, particularly in societies that appear to be lawless or where the existing laws clearly have no discernible impact on the environment, the costs of this approach may be considerable.

EPA's Project XL and Common Sense Initiative (CSI) are two efforts to encourage industry to take the lead in finding better solutions to environmental problems. Under XL, facilities are invited to demonstrate superior environmental results in exchange for EPA's waiver of some applicable regulatory requirements. To make this happen, EPA suggested it would adopt a principle of "enforcement discretion," pledging not to pursue particular violations at participating facilities in recognition of the facility's good faith efforts under the XL program. CSI seeks to move the focus of the EPA away from media-specific management toward an approach that understands the functional characteristics of industrial production. Its stated goals are to remove barriers to innovation and promote strategic environmental protection.

Both efforts assume that sufficient opportunities exist within the current system of environmental laws to allow industry to seek cleaner, more cost-effective environmental management methods. Unfortunately, both are largely stalled for lack of basic legal authority. For CSI, EPA lacks the legal mechanisms to make multi-media experiments operational. In the XL program, experimentation with new approaches to environmental protection could be carried out only by violating current legal requirements. EPA's agreement not to enforce a regulation does not offer sufficient protection to potential industry participants in the XL program, since there is legislation that authorizes citizen suits to rectify regulatory violations in the face of government inaction. Also, enforcement officials worry about the precedent set by deliberately inviting and ignoring violations of law. Because neither EPA nor the facility applicants can guarantee that there will be no litigation for violations of existing requirements, and therefore no legal liability, there can be no guarantees to support activities that violate existing legal requirements.

The practical difficulty of the enforcement discretion approach has caused EPA to consider other legal alternatives to the XL program, including expedited rule making to exempt the XL projects from controlling regulatory requirements. The ability of other countries to experiment with more flexible regulatory approaches obviously depends on their particular circumstances. However, difficulties confronted in the US, when coupled with similar problems elsewhere (such as establishing a legal basis for emissions trading in Poland), indicate the need for congruence between regulatory reforms and legal foundations.

Source: Prepared by Terry Davis and Ruth Bell, Resources for the Future.

Box 8.2

Flexible Policy Dialogue Capitalizes on New Opportunities in Niger

Over the past decade, USAID and the World Bank have engaged in a policy dialogue on sustainable natural resources management with the Government of Niger. Through such programs as the Agricultural Sector Development Grant I, the dialogue stressed process reforms regarding community resource management rights, legislation (including resource tenure), and public vs. private rights and responsibilities. Specific matters have included the right to form local cooperatives, which can manage and market forest products; the establishment of secure resource tenure as an incentive to long-term investments to ensure sustainability; change in the role of forestry agents, from repression to extension; and changes in the forestry code to move away from pure state ownership of the commons (with enforcement by paramilitary armed forestry agents) towards defined community management rights over the “*terroir villageois*” (village commons). This policy dialogue focused on internal reform, stressing sustainability of subsistence production and geared more toward self-sufficiency than commercial production and exchange.

Changing circumstances have necessitated changes in policy dialogue to capitalize on new opportunities. The necessary internal reforms were insufficient, and two sets of adjustments in the broader economic and demographic environment addressed new issues.

First, parallel programs supported by USAID and the World Bank (including the Forestry and Land Use Planning project at Guesselbodi and its subsequent extensions) showed new potential for trade in forest products (firewood and fodder, primarily) to create financial incentives for sustainable forest management. Concurrently, NGOs such as SIM, CARE, and AFRICARE were experimenting with agroforestry programs that yielded both commercial forestry and *agricultural* benefits. Added to this mix was the growing success of the USAID-supported Majjia Valley windbreak program, which showed slow but steady gains over 25 years before it began to take off with locally widespread and measurable impact. The sum of these experiments provided new insights on what rural producers wanted and on what policy initiatives were needed.

Second, core economic and governance equations changed. In March 1993, Niger moved from 33 years of authoritarian and single-party rule to its first democratically elected government. In January 1994, the overvalued CFA franc, long cited as an insurmountable obstacle to economic development, was devalued by 50 percent. The Rural Code process to clarify and formalize resource tenure moved into full swing after 1991, changing the stakes for rural resource access and altering economic options for resource management. Under conditionality agreements with USAID and other donors, Niger committed itself to major structural reforms in agricultural marketing, natural resources, health delivery systems, enterprise development, and other areas.

Policy dialogue that focused solely on subsistence producers no longer related to the structural transformations in rural production systems, while narrow focus on the small governance issues (such as the role of the forestry agent) would miss the much larger governance changes taking place. Ignoring the impact of devaluation and opportunities for trade with Nigeria and other coastal countries would not meet the needs of producers at the cutting edge of change. In second-generation programs, such as USAID's Agricultural Sector Development Grant II program and the Bank's *Programme de Gestion des Ressources Naturelles*, dialogue has shifted dramatically to capitalize on what has changed and what has been learned. While Niger's *coup d'état* in July 1994 caused a setback, overall the trend remains positive and impressive, with strong evidence of some 400,000 rural producers adopting improved NRM. techniques within the last five years.

Source: Prepared by Asif Shaikh.

Box 8.3
Adapting Environmental Compliance Schedules into Polish Practice

Bringing polluters into compliance with applicable environmental requirements requires flexibility and a variety of practical tools. Compliance schedules, long used in the US and more recently in Western Europe, bridge gaps between ambitious environmental requirements and actual practice. These enforceable schedules explicitly identify remedial measures and offer ways to overcome economic and technical obstacles to achieving legal requirements. Schedules set realistic goals to allow sufficient time for polluters to meet their legal requirements, but also assure continuous increments of progress.

Compliance schedules are, in principle, ideal tools for countries in transition that are struggling with the inheritance of polluting industries, high environmental standards, and poorly functioning environmental protection systems. They can also assist domestic phase-in of obligations under EU accession. However, compliance schedules in the US work because of the unique characteristics of the court system. Common law courts fashion unusual remedies to fit particular situations and can hold parties in civil contempt for violating court orders. Other countries with very different legal traditions and more constrained judicial powers need different solutions to achieve the same goals.

In Poland, a multi-step policy dialogue with Polish and US teams addressed the situation in that country. The Polish team included professionals from federal and district environmental enforcement authorities, the Ministries of Environment and Industry and others, representing both necessary skills and crucial government stakeholders. The teams educated each other about relevant legal, institutional, and cultural conditions in both countries that might affect adoption of compliance schedules. Policy options were developed and vetted within the government and with Polish interest groups (including both industry and green groups), whose views and concerns were addressed in the product produced by the Polish team. The process toward incorporating these practices into Polish procedure continues with negotiation training and several demonstration negotiations.

This effort represented a genuine partnership with flexibility as a cornerstone. The process of building constituencies for the project required enormous patience; sometimes work was intense; at other times, it stopped cold as the Polish team adjusted to changes in domestic conditions.

Source: Prepared by Terry Davis and Ruth Bell, Resources for the Future..

Box 8.4**Interactive Policy Dialogue Leads to Improved Water Management in Romania**

In the Communist era, piped water in Central and Eastern Europe was unpriced or underpriced, unmetered, and sometimes unavailable from suppliers who were not accountable and not responsive to household preferences or local conditions. With decreasing central budget allocations and inadequate revenue generation, suppliers had no funds for repair or expansion of water supply and distribution systems. Subsidized prices and non-metered systems also brought on excessive water use and waste, so overall water service deteriorated.

In Romania, the C4EP project implemented by the Harvard Institute for International Development under a cooperative agreement with USAID, worked closely with local counterparts to develop a national Water Law to remedy existing problems by encouraging improvements that incorporate the beneficiary-pays principle. The law was approved by Parliament in 1996.

A series of policy dialogue events organized by C4EP helped to examine policy options, develop the law, promote its passage, and support its implementation. To initiate the policy dialogue, a round table featured foreign experts who presented water management models from the US, UK, and France. The Romanians then considered which aspects of the various models would be most appropriate for the Romanian situation and used the information to draft the new legislation. The round table process also facilitated the development of internal consensus among stakeholders and decision makers.

The new law deals with finance, accountability, and decentralization. The beneficiary-pays principle is the explicit operating principle of the law, and the goal is to move to full-cost pricing as soon as feasible. Accountability and decentralization will be enhanced by community-level river basin committees that have the power to prioritize and approve all water projects in their area. The basin committees include locally elected officials as well as local water consumers and producers. Public participation is mandated and protected in the law, as is freedom of information. A series of public debates held around the country reviewed the draft charter for the river basin committees and public comments were incorporated during a three-day internal round table to finalize the regulations.

Source: Prepared by Theo Panayotou.

Box 8.5 **Interactive Water Policy Dialogue in Egypt**

Significant policy change often requires thinking about old problems in new ways, as experience in the Ministry of Public Works and Water Resources (MPWWR) in Egypt shows. Until recently, development strategy in Egypt focused on increasing the productivity of irrigated agriculture to close the food gap, make the desert bloom, and provide employment for a rapidly growing population.

As Egypt approached full development of its share of Nile waters, meeting these objectives required a move away from extensive development of an increasingly scarce water resource to conservation and more efficient water use. Using a technical approach, the government sought to improve on-farm water efficiency and expand irrigated areas. However, research and experience in the western US had shown that improving the efficiency of on-farm water management might conserve water at the farm level without conserving any freshwater at the river basin level. If this happened, real water savings would be illusory.

This insight presented researchers and policy analysts in the MPWWR with two important issues: first, to determine which improved on-farm water efficiency measures actually saved freshwater in Egypt; and, second, to make policy changes based on these findings. Unless both of these were successfully addressed, substantial resources might be wasted trying unsuccessfully to save water.

To address these issues, a substantial collaborative Egyptian–American research program on the Egyptian Nile designed and carried out a large number of studies to identify (a) the remaining conservation potential of the Egyptian Nile, (b) where along the Nile water could be saved, and (c) how water could be saved most effectively. Study results showed that potential savings were much smaller than previously estimated, identified which on-farm water efficiency improvements actually saved water, and determined that the MPWWR's nascent drainage reuse program was highly cost-effective.

Effective communication and acceptance of these findings within the irrigation and water policy community in Egypt depended on:

- P The development of broad-based political and technical support from senior officials within the MPWWR and in the rest of the government.
- P A joint Egyptian–American team with strong analytical skills, extremely effective interpersonal skills, and the ability to communicate ideas and their policy relevance to non-technical audiences.
- P Repeated and frequent workshops, seminars, and briefings to report on progress, findings, and policy implications of the highly targeted applied research program in order to build consensus for policy change.
- P High-level support within the ministry to sustain a highly targeted applied policy research program.

Source: Prepared by Mike Rock.

4. The Content of Policy Dialogue

Lesson 9:

Policy Dialogue Depends on Solid Analytics

What Has Been Learned

A solid analytical basis for the conduct of policy dialogue has proven highly important. First, it helps establish the advisor's and the donor's credibility. Second, it helps the advisor and donor contribute to determining the underlying causes of an environmental problem, especially in cases where these causes are imperfectly understood. Finally, a dialogue based on reliable analysis will more likely result in effective policy.

Key Underlying Issues

Having Strong Analytics. The value of solid analytics in policy dialogue is common sense; dialogue and decisions based on good information surpass those based on flawed or incomplete information. Good analysis does not always lead to good policy, but in the absence of reliable information constructive policy is a rarity.

Choosing Analytical Approaches. Involving local experts in analytical work often contributes to greater usefulness, acceptance, and impact. These experts can help donor-supported advisors identify and gather information not easily collected by foreigners. The intensive involvement of local experts serves as an important capacity-building technique and offers major long-term results. Further, having local experts as integral members of the analytical team can help persuade stakeholders and policy makers of the validity and usefulness of the analysis and induce positive policy change (Box 9.1).

Drawing Upon Local Expertise. Similarly, local stakeholders and policy makers can assist with analytical work, and should be consulted in study design. They can participate in seminars and conferences at which goals and objectives are discussed, at which preliminary findings are described, and at which final results are presented. Maximizing the involvement of key local stakeholders in as many facets of the work as possible usually results in greater acceptance of the results and contributes to a more open dialogue on new policies.

Combining Foreign and Local Expertise. Although the value of solid analytics in policy dialogue is virtually self-evident, the donor-supported advisor must consider the following and other potential complications:

Conventional Wisdom. Local decision makers and stakeholders may have previously reached conclusions based on anecdotal or incomplete information on the causes and impacts of an environmental problem. In this case, the advisor must overcome initial resistance to the idea that more information is needed and may subsequently face skepticism if new findings question conventional wisdom. In cases where highly visible problems create pressures to find quick solutions, stakeholders

and policy makers might need convincing that analysis is valid and necessary.

Time and Resources Commitments. Undertaking solid analysis takes time and resources. Although “quick and dirty” studies can often be done, when the issues are complex such an approach can lead to misleading conclusions. Advisors must commit the time and money needed to discover and document the central issues and must be able to gain the support of in-country counterparts for this endeavor. This can be particularly challenging in situations where local consensus on causes and impacts already exists.

Multi-disciplinary Perspectives. Solid analysis needs to identify and include all of the relevant facets of environmental problems and the likely impacts of possible solutions. Frequently multi-disciplinary analysis is required. Physical and biological sciences describe environmental systems’ response to pollution; engineering identifies technical problems related to the generation of pollutants; economics can analyze and quantify investments of various stakeholders; institutional analysis helps determine the roles and responsibilities of government and NGOS; and the social sciences examine human behavior patterns and interaction as they relate to environmental challenges.

Information Dissemination. Communicating the results of analysis is as important as the analysis itself. If results are poorly communicated and not understood by other policy dialogue participants, the probability of acceptance and impact are greatly diminished. Foreign advisors serving as policy analysts must find effective ways to communicate both methodology and results.

Programmatic Implications

1. Include solid analysis in the policy dialogue process with the support of key participants, including USAID, local stakeholders, and local policy makers; instances in which there is intense pressure for rapid solutions, or where a local consensus on causes and impacts exists, are not exceptions.
2. Beneficial local involvement can take many forms, from participation in the determination of goals and objectives by policy makers to the performance of key analytical tasks by local experts.
3. A collaborative applied research program that tests new concepts and instruments in the local context (e.g., through surveys and pilot projects) combined with frequent briefing of policy makers and workshops for stakeholders is often indispensable to effective policy dialogue and to human and institutional capacity building.

Box 9.1
Solid Analysis Furthers Policy Dialogue

HIID already had a well-established, USAID-funded resident environmental policy program in Romania when, in 1995, the Ministry of Environment requested assistance on issues related to financing forest management and protection. As in most transition economies, state support for natural resource management and environmental protection had been cut. The Ministry was actively considering new ways to finance these activities.

In late 1992, the government introduced an auction system for timber tracts that generated more revenue than the previous system of administered prices. However, the advisory team found that correcting defects in the auction system could potentially generate additional revenue. The Ministry was skeptical, but it agreed to cooperate with HIID on an auction system study.

To assess the situation accurately and to develop reliable policy recommendations, the study needed to be sound, but equally important, it needed to be credible to Romanian counterparts who were not convinced that the auction system needed fixing. Romsilva, the parastatal responsible for administering the auction system, was even more skeptical than the Ministry.

To establish credibility, members of the advisory team visited field offices of Romsilva, attended auctions, interviewed people in the government and industry, and conducted a statistical analysis of more than 2,000 auctioned timber tracts. They also held several rounds of discussion of preliminary findings with the Ministry and Romsilva. Through this intensive, eight-month interaction, the Ministry and Romsilva gained confidence in the team's knowledge of the Romanian forest sector and the validity of the study. Consequently, they accepted the advisory team's final report with few objections and have subsequently taken steps to implement its main recommendations.

Source: Prepared by Jeffrey Vincent.

Lesson 10:

Policy Dialogue Is Necessarily Multidisciplinary and Must Also Recognize Cross-sectoral and Gender Linkages

What Has Been Learned

Donors, policy makers, technicians, and communities need to work together through seminars, workshops, research and program monitoring for effective environmental policy dialogue to occur. A comprehensive understanding of opportunities for and constraints to better natural resource and environmental management is necessary to build the broad-based support that policy changes demand. Multiple complex issues override conventional sector boundaries, and diverse information must be integrated and made easily accessible to inform policy and planning decisions. Adopting interdisciplinary perspectives can be challenging and demands a continual review of both the environmental and socioeconomic effects of policy change. Strong consideration of gender and other equity issues throughout this process enhances the prospects for success of environmental policy dialogue.

Key Underlying Issues

Narrow Thinking/Hard Learned Lessons. Small farmers in developing countries typically have few options; they usually manage very limited natural resources to support themselves and their families. Technicians, planners, and specialists who come with preconceived projects and agendas tend to think in sectorally bounded ways. In the early days of community forestry, small-scale projects were based on accepted forestry practices; for example, plantations became wood lots of fast-growing trees. However, these projects ignored agricultural land needs, local property rights customs, and even locally preferred tree species. Energy programs focused on stoves with the highest possible wood efficiency—forgetting that people who used the stoves had specific needs regarding cooking speed; wood flavors for food; changes in cooking location for different seasons and times of day; available space, size and shape of pans; and smoke management. Water projects provided wells without fully considering that cattle coming to drink would also have to eat, and soon the areas around the wells became denuded. Technical project planners widely forgot that without social and institutional understanding, benefits could be coopted by those not paying the costs.

Developing an Understanding of Cross-Sectoral Linkages. In 1978, the Swedish International Development Authority (SIDA) announced a policy change. SIDA forestry efforts would include cross-sector linkages and multidisciplinary perspectives, and SIDA told FAO forestry officials that it would not fund community forestry programs designed and implemented solely by foresters. SIDA identified the need for community development, communications and social science skills, and participation of women on design teams. Consequently, an FAO Advisory Task Force, formed to discuss community forestry in a cross-sectoral forum, included specialists from forestry and all the other technical departments. To strengthen policy dialogue, a new international Expert Consultation Group of forestry departments policy makers visited and analyzed forestry activities in various countries, annually reviewed and advised on the FAO/SIDA program, and discussed policies to

support community forestry in their countries.

Community-Based Resources Management. First, the FAO/SIDA program learned how to assess and plan with local men and women, who identified perceived opportunities and problems. Local technical knowledge and organization became the basis for activity design and implementation. Issues such as forestry and food security, women's specific issues and needs, tenure and communal management surfaced as community concerns. Newly developed team-building techniques helped communities set priorities and manage local activities. Communications specialists established approaches to present local perspectives to state and regional policy makers through locally made and edited videos. Institutional and legal disincentives for natural resource management were identified, and policy and technical aspects of conflict management were explored. All of these efforts took the collaboration of nutritionists, lawyers, foresters, marketing specialists, farming systems experts, political scientists, anthropologists, and others working in cooperation with local stakeholders—including government agents and policy makers.

Adaptive Management. Without inter-sectoral, multidisciplinary teamwork, implementing the FAO/SIDA program would have been impossible. However, using participatory design methods is not easy and demands continual review of the primary and secondary impacts of policy change as activities develop. For example, in India a well-known new and widely supported program is Joint Forest Management (JFM). It rewards communities with some tenure rights and shared economic benefits for improving degraded forest land and protecting and managing regenerating or planted trees. At first this seemed like a wonderful breakthrough for the forests, foresters, and village communities. However, additional issues now call for fine tuning the JFM approach. For example, communities that already successfully manage forests (and therefore have good quality, non-degraded forest land) do not qualify for local management, while others may lose access to their forest areas because they are not yet degraded. In addition, functioning management groups may be undermined through projects establishing totally new organizations with management authority.

Gender and Equity Issues. Gender and other equity issues also arise. In the JFM program, men usually oversee protecting the forest area, but women often find that collecting fodder and fuelwood becomes more difficult. They must compete with women of other communities for products from non-protected forest land or from land outside their own community's protection. Not only spatial issues but temporal issues arise. For example, even when women can obtain fodder and bedding from pruning and other management practices in young plantations, as the trees grow taller, the women have less access to these byproducts. New access arrangements then must be made to obtain these resources (see Box 12.1).

Cross-Disciplinary Communications Challenges. Working with technical specialists in other disciplines and from other sectors can be challenging and requires a long-term commitment. In 1986, FAO nutritionists were asked to help develop tools for analyzing nutrition and food security problems in forestry activity areas. Since nutritionists had not been trained to see relationships between forestry, land use, natural resource access, and nutrition, they had not focused on famine foods and perennials as a food source during droughts or local snack foods from wild plants and animals. Nor had they considered traditional medicines from forest plants that affect food absorption and nutrition. For programs and activities to improve the lives of the rural poor, food security issues must be basic to long-term resource management goals. Eventually, FAO nutritionists considered locally defined food

security, nutritional problems, and health records, and new tools increased awareness of the potential for improving local nutrition and health through forestry activities. Later, workshops with forestry policy makers, nutritionists, and project managers were held in Asia. Currently, forest services in Bolivia and in Mali are using results of these studies and adapting them to their own situations. Further, the FAO Nutrition Division has a nutritionist who works solely with forestry and fisheries projects.

Integrated Information Management Tools. Information must be organized and easily accessible if it is to inform policy decisions. For example, in some Bolivian communities, an integrated information management tool (IFRI) integrates information on the history, local use rules, the socioeconomic and political environment, and an inventory of biomass and biological diversity. Communities use this information to draw-up management plans and expect to use the reports in the new national land adjudication policy, based on historic territory and current use and management practices. In Uganda, IFRI helps give early warning of forest degradation or changes in biological diversity. When changes occur in the resource base, this information tool can show relationships to changing market pressures, makeup of local populations, tenure, or rules of use. The linkages highlighted by this relational data base can help indicate directions for policy and planning changes.

Programmatic Implications

1. Cross-sector and gender issues must be fully incorporated into the environmental policy dialogue process or useful perspectives will be lost and the relevance of policy change placed in jeopardy.
2. Adaptive management methods have proven successful in policy dialogue, but they require a heavy emphasis on information feedback and open communication among all stakeholders.
3. Specific measures—such as the use of workshops, seminars, and other approaches for bringing together policy makers, technical specialists and local people—must be built into the design of environmental policy dialogue efforts.

Box 10.1**Gender and Policy Dialogue in Natural Resource Management**

The early 1980s brought extensive focus on women and forestry with the realization that women had different needs and requirements for natural resources than did men and that men and women had complementary roles within their families and communities. To develop means for general analysis, the FAO undertook a program in Asia to dialogue with and stimulate input from policy makers, training institutions, and projects.

The FAO selected eight forestry projects from six Asian countries; all contained local participation components and cooperative project managers. Each study team included a member from a local social science group who had worked with gender issues, another from a training institution, and a technical advisor who was a high-ranking policy-level person from the forestry sector. The following steps were taken in each of the countries:

1. Gender and training specialists with representatives from FAO Rome made a field visit to each project and established dialogue with project staff.
2. Gender and training specialists from each country attended a workshop on writing participatory case studies, drafted an analysis framework, and designed project studies. The framework included four questions: (a) the development context—what is getting better and what is getting worse? (b) women's and men's activities and roles—who does what? (c) women's and men's access to and control over resources—who has what and who needs what? (d) forestry actions needed—what should be done to close the gaps between what women and men need and what development delivers?
3. Frequent meetings for each national team identified activities that failed because of lack of understanding of gender differences. For example, a man discussed tree needs with project staff and the staff produced a large number of seedlings. However, women plant and water seedlings. They had not been advised of the seedling delivery and were unable to change their daily chores to accommodate the added work, so the seedlings died. The next attempt included both women and men in the discussion. The trees had a high survival rate.
4. At a second workshop, gender and training specialists evaluated their research and developed a plan. The case studies differed greatly, showing that project effectiveness necessitated factoring in the sociopolitical environment. For example, a politically sensitive area in Nepal resulted in a project being especially disadvantageous to women. In Thailand, three different ethnic groups in one project area each had very different roles for men and women. In Bhutan, the issue was to keep the traditional gender equality in the face of projects that appeared to introduce inequality. The studies showed that misconceptions about men's and women's roles could be disastrous to project outcomes.
5. Further workshops established ways to incorporate this information in future training, in participating projects, and in the ministries. Videos, case studies, training materials and policy discussion papers were developed.

The FAO's substantial investment in this activity resulted in related training institutions helping to train local ministries, international agencies, and NGOs and assisting with other projects. Forestry officials have been focal points for support of gender analysis. The materials produced, used at international meetings, have been translated into Spanish and French.

Source: Prepared by Marilyn Hoskins.

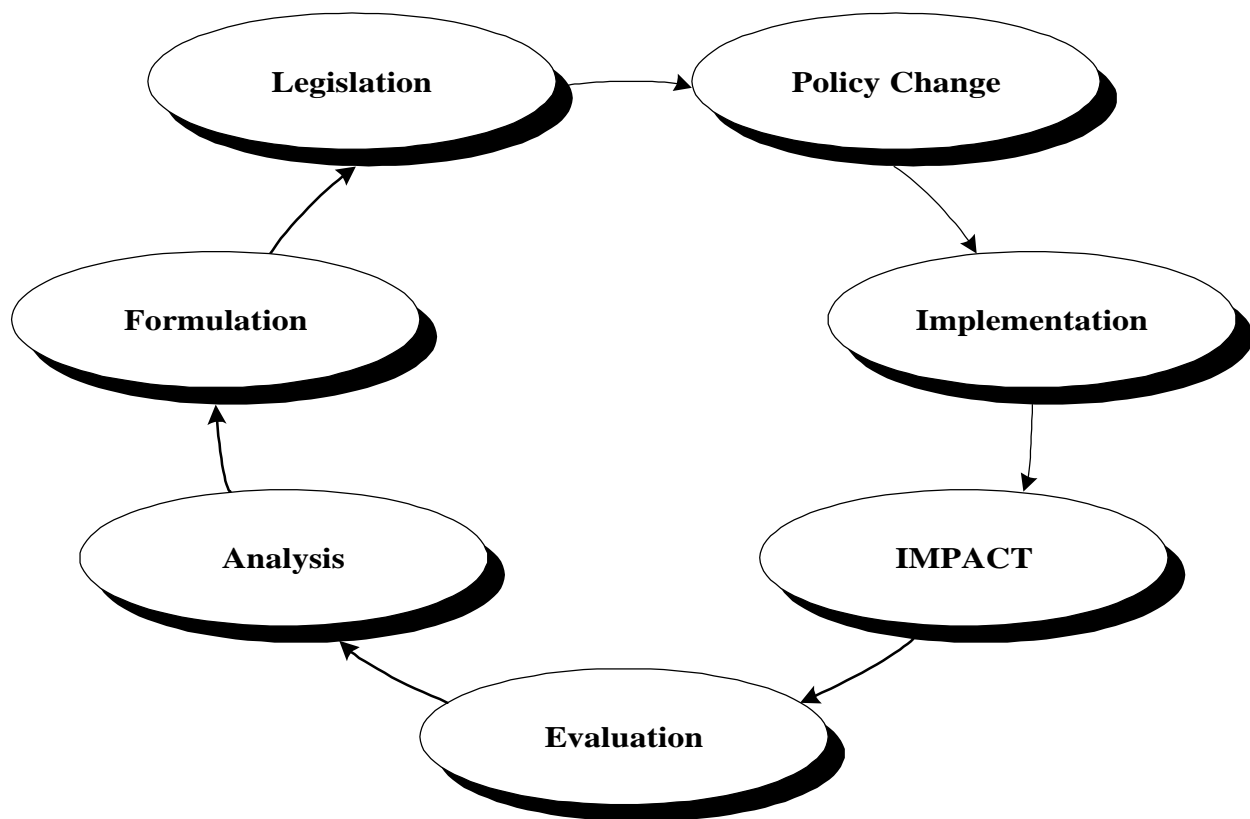
Annex A

Summary of Major Issues Raised During Discussions at the *EPIQ Workshop on Lessons Learned: Environmental Policy Dialogue* October 14, 1997

The USAID Global Bureau Environment Center, through its Environmental Policy and Institutional Strengthening Indefinite Quantity (EPIQ) Contract, convened a *Workshop on Lessons Learned: Environmental Policy Dialogue* on October 14, 1997. Over 50 participants from both the technical and operational offices of USAID took part in an active discussion of the findings and recommendations contained in the *draft* EPIQ report entitled, *Environmental Policy Dialogue: Lessons Learned* (see the agenda and list of invitees in Annex B). The report identified ten key lessons regarding the style and substance of environmental policy dialogue drawn from USAID experience around the world. Reactions to the report were very positive, but several important steps and further considerations to refine the analysis were raised during discussions—summarized here under five headings:

1. Policy Process. A diagram (see Illustration 1) was introduced during the workshop to depict the process involved in developing policy proposals and then seeing them implemented. The seven steps in an ongoing cycle imply a progression from problem identification through formulation of policy options, choices, change and impact. Several refinements were suggested by workshop participants. The need for a strong unifying conceptual framework to drive the thinking behind the policy process was identified. Focussing narrowly on environmental issues—outside of the economic development context—was seen as too limiting. Discussants felt that participation should be emphasized at every stage of the process. The report speaks of the need for policy champions and identification of key stakeholders, but the workshop participants added that—though sometimes difficult—it is vital to fully engage all who can potentially benefit from and support needed changes as early as possible. Related to this is the need to identify key constraints to policy implementation early on, and to develop strategies for compensating or otherwise dealing with those who will “lose” as a result of proposed changes. Finally, the participants identified the need for an active engagement of the private sector in the process—an area that deserves further attention as environmental policy work is refined.

2. Timing. There was much discussion of issues relating to the timing of actual policy change and the effect this has on USAID technical assistance and other considerations. There is a very common tendency—around the world—to wait for a crisis before significant policy action is taken, and there was a discussion of ways to encourage needed reforms before an emergency occurs. Though this was left as an area for further investigation, one approach suggested was to place economic values on environmental costs associated with current policies and to show how these can be reduced through positive change. But it was acknowledged that policy work is often a waiting game, in which analysis and learning take place well in advance of the coincidence of political, social and economic factors which create an opportunity for significant reform.

Illustration 1: Stages of the Policy Process

3. USAID Engagement. Given that policy work calls for patience, there were expressions of concern among participants about USAID's future ability to remain effectively engaged. The reality of diminishing foreign aid resources—translated into reduced or eliminated field presence—led to an active discussion of how USAID can alter its strategy in these circumstances. There was much discussion of how to better leverage the resources of other development partners—multilateral donors, other US Government agencies, host country governments, and the private sector—to complement the increasingly limited contributions of USAID. It was agreed that there is no substitute for on-the-ground knowledge and long-term presence in a country when dealing with the complex institutional, political and economic dimensions of environmental policy change. However, new approaches for dealing with very limited or no country presence will need to be developed if USAID is to remain engaged. Though this was left as an area for further consideration, options discussed included the development of links with country-level think tanks or NGOs, ties to regional institutions with strong country-level relationships, and the sponsorship of regional policy workshops to involve key players and to exchange information on common policy problems and approaches.

4. Multi-Country Environmental Problems. There is a growing acknowledgment that many environmental problems do not respect national boundaries, and that new strategies must be developed to address them. In addition to the global issues of biodiversity loss and climate change, examples include: multi-country river basin management such as in Central Asia; the fire/haze crisis in Southeast Asia; and trans-boundary protected area management in southern Africa. There have

been initial attempts by USAID and the State Department to address such issues, including the ground breaking USAID work in Central Asia in response to the Aral Sea crisis and the State Department's formation of regional "environmental hubs" around the world. But workshop participants felt that further work is needed to better understand how best the US can organize itself to help solve these problems, which are increasingly the source of regional security tensions. It was suggested that one way to accelerate this learning process would be for USAID to take on several such issues—the Southeast Asia fire/haze crisis and/or environmental aspects of Mekong River Basin development—and to document the lessons learned from this experience for future application.

5. USAID and Environmental Policy Work. The rapid growth of EPIQ activities and strong interest displayed at the workshop in environmental policy efforts shows the increasing importance being placed by the Agency on policy and institutional reform as a means to accomplish sustainable development results. Workshop participants recognized that policy work can be hard to sell within the USAID Washington and field system when compared to on-the-ground pilot activities with more easily identifiable direct beneficiaries. Moreover, the Agency's results frameworks—including that of the Global Environment Center—often do not lend themselves well to cross-cutting policy and institutional issues. Policy-level indicators such as the number of people positively affected by policy change are not as common or as well developed as those expressed in area, financial or other measures. Intermediate Results are usually "sectorally" defined—under such headings as improved natural resources management or pollution reduction. Finally, several approaches were suggested in discussions on how to get across the lessons embodied in the draft EPIQ report within USAID: (a) the Global Environment Center will use the report as the basis for developing its applied research agenda for the next fiscal year; (b) the EPIQ report will be widely distributed within the Agency, including to Missions; and (c) a second EPIQ-sponsored "lessons learned" exercise will be undertaken to build on this effort.

Annex B

EPIQ Lessons Learned Workshop Agenda and List of Invitees



ENVIRONMENTAL POLICY DIALOGUE: LESSONS LEARNED

**Sponsored by the Environment Center, Global Bureau
and convened through the EPIQ Contract**

**Rosslyn Hyatt, Arlington, VA
October 14, 1997, 8:30 – 2:30pm**

8:30am	Registration and Coffee
9:00	Welcoming Remarks by David Hales
9:10	Introduction by Peter Kimm
9:20	Purpose and Organization of Workshop by Ken Baum
9:30	Policy Process by Asif Shaikh
9:45	Open Discussion
10:15	Coffee Break
10:30	Policy Dialogue: Initiation and Context by Theodore Panayotou
11:15	Open Discussion
12:00pm	Lunch Break (working lunch)
12:30	Policy Dialogue: Process by Mike Rock
12:50	Open Discussion
1:10	Policy Dialogue: Content by David McCauley
1:30	Open Discussion
1:50	Wrap-up Discussion by David Hales and Peter Kimm
2:15	Options for Lessons Learned Report #2, FY98 by Ken Baum
2:30	End of Workshop

Workshop Invitees

Orestas Anastasia, G/ENV

Kate Barba, G/ENV

Ken Baum, G/ENV

Barbara Belding, G/ENV

Michael Benge, G/ENV

Jerry Bisson, G/ENV

Ellen Bollar, G/ENV

Pat Bowen, G/ENV

Hal Cardwell, G/ENV

Ron Carlson, G/ENV

Maurice Crawford, G/ENV

Paul Crawford, G/ENV

Daniel Deely, G/ENV

Paul des Rosiers, G/ENV

Carl Duisberg, G/ENV

Deborah Diaz, G/ENV

Michael Enders, G/ENV

Viviann Gary, G/ENV

Cynthia Gill, G/ENV

Alicia Grimes, G/ENV

David Grossman, G/ENV

Todd Harding, G/ENV

Jeremy Hagger, G/ENV

David Hales, G/ENV

Heather Huppe, G/ENV

Devin Reese, G/ENV

Leslie Johnston, PPC/ENV

Kamran Khan, G/ENV

Peter Kimm, G/ENV

Carla Koppell, G/ENV

Sonny Low, G/ENV

Bob MacLeod, G/ENV

Doug Mason, G/ENV

Melanie Mason, G/ENV

John Matusak, G/ENV

Sheree McManus, G/ENV

Mary Melnyk, G/ENV

John Mitchell, G/ENV

Franklin Moore, G/ENV

Mark Murray, G/ENV

Curt Nissly, G/ENV

Steve Osofsky, G/ENV

Regina Klem-Ostergaard, G/ENV

Melissa Pailthorp, G/ENV

David Painter, G/ENV

Michael Philley, G/ENV

Carol Pierstorff, ENI/EEUD

Peter Pirnie, G/ENV

Eric Peterson, G/ENV

Ross Pumfrey, G/ENV

Melody Bacha, ENI/EEUD

Alberto Sabadell, G/ENV	Pam Baldwin, ENI/EEUD
Linda Sadat, G/ENV	Jim Bever, ENI/EEUD
Kim Sais, G/ENV	Alexandra Burke, ENI/EEUD
Samuel Schweitzer, G/ENV	Angela Crooks, ENI/EEUD
Jeff Seabright, G/ENV	Jackie DeRosa, ENI/EEUD
Ben Stoner, G/ENV	Marshall Fisher, ENI/EEUD
Bill Sugrue, G/ENV	Mohammed Latef, ENI/EEUD
James Sullivan, G/ENV	Carl Mitchell, ENI/EEUD
Holly Thompkins, G/ENV	Julie Otterbein, ENI/EEUD
Lamarr Trott, G/ENV	Gordon Straub, ENI/EEUD
Tom Webster, G/ENV	Dwight Walker, ENI/EEUD
Christine Wegman, G/ENV	Jeff Goodson, ANE/ORA/O
Sarah Wines, G/ENV	John Wilson, ANE/SEA/SPA
Alison Withey, G/ENV	David Gambill, WIDTEK
Steve Witkowski, G/ENV	Victor Bullen, PPC/ENV
Michelle Zador, DAI/EPIQ	Jim Hester, PPC/ENV
Carl Gallegos, AFR/SD	Pricilla Phelps, Padco
Phil Jones, AFR/SD	Sandra Smithey, Padco
Mike McGahuey, AFR/SD/ROS	Dave Leibson, Padco
Tony Pryor, AFR/SD/ROS	Daud Beg, IRG
Tim Resch, AFR/SD/ROS	Doug Clark, IRG/EPIQ
Jeff Brokaw, LAC/RSD	Philip DeCosse, IRG
Eric Fajer, LAC/RSD	Charles Ebinger, IRG/EPIQ
Morris Israel, LAC/RSD	Ian Fitzsimmons, IRG/EPIQ
Gilbert Jackson, LAC/RSD	David McCaulley, IRG/EPIQ
John McMahon, LAC/RSD	Doug Pool, IRG/EPIQ
Tony Meyer, G/HCD	Asif Shaikh, IRG/EPIQ